COMMERCE AMERICA

U.S. Department of Commerce / July 31, 1978

World Trade Outlook

JE017R 1

Open World Trading System Backed At Bonn Economic Summit

The heads of state of the United States and six other major industrialized nations, at an Economic Summit meeting in Bonn July 16-17, affirmed agreement on a comprehensive strategy covering growth rates, employment and inflation, energy policies, trade and their relations with the developing nations. Of particular interest to *Commerce America* readers is the following excerpt from the concluding declaration, on the subject of trade expansion:

We affirm our determination to expand international trade, one of the driving forces for more sustained and balanced economic growth. Through our joint efforts we will maintain and strengthen the open international trading system. We appreciate and support the progress as set forth in the framework of understanding on the Tokyo Round of multilateral trade negotiations made public in Geneva, July 13, even though within this framework of understanding some difficult and important issues remain unresolved.

The text of the "framework of understanding" statement by industrialized nation delegations (including the U.S.) is available from the Trade Negotiations and Agreements Division, Office of International Trade Policy, Room 3031, U.S. Dept. of Commerce, Washington, D.C. 20230.

The successful conclusion of these negotiations, the biggest yet held, would mean not just a major trade liberalization program extending over the 1980's but the most important progress yet made in the GATT in relation to nontariff measures. Thus the GATT rules would be brought more closely into line with the requirements of the next decade—particularly in relation to safeguards—in ways which would avoid any weakening of the world trading system and be of benefit to all trading countries, developed and developing alike. A substantially higher degree of equity and discipline in the international trading system would be achieved by the creation of new mechanisms in many fields for consultation and dispute settlement. Uniform application of the GATT rules is vital and we shall move in that direction as soon as possible.

In all areas of the negotiations the summit countries look forward to working even more closely with the developing countries. We seek to insure for all participants a sound and balanced result, which adequately takes into account the needs of developing countries, for example, through special and differential treatment, and which brings about their greater participation in the benefits and obligations of the world trading system.

At last year's Downing Street summit we rejected a protectionist course for world trade. We agreed to give a new impetus to the Tokyo Round. Our negotiators have fulfilled that commitment. Today we charge them, in cooperation with the other participants, to resolve the outstanding issues and to conclude successfully the detailed negotiations by Dec. 15, 1978.

We note with satisfaction the renewal of the pledge to maintain an open-market oriented economic system made by the OECD Council of Ministers. . .

We welcome the statement on positive adjustment policy made by the OECD ministers. There must be a readiness over time to accept and facilitate structural change. Measures to prevent such change perpetuate economic inefficiency, place the burden of structural change on trading partners and inhibit the integration of developing countries into the world economy. We are determined in our industrial, social, structural and regional policy initiatives to help sectors in difficulties, without interfering with international competition and trade flows.

We note the need for countries with large current account deficits to increase exports and for countries with large current account surpluses to facilitate increases in imports. In this context the United States is firmly committed to improve its export performance and is examining measures to this end. The Prime Minister of Japan has stated that he wishes to work for the increase of imports through the expansion of domestic demand and various efforts to facilitate imports. Furthermore, he has stated that in order to cope with the immediate situation of unusual surplus, the Government of Japan is taking a temporary and extraordinary step of calling for moderation in exports . . .

We underline our willingness to increase our cooperation in the field of foreign private investment flows among industrialized countries and between them and developing countries. . .

In the context of expanding world economic activity, we recognize the requirement for better access to our countries' markets for the products of the developing countries. At the same time we look to increasing readiness on the part of the more advanced developing countries to open their markets to imports . . .

In the years ahead the developing countries, particularly those most in need, can count on us for an increased flow of financial assistance and other resources for their development. The Prime Minister of Japan has stated that he will strive to double Japan's official development assistance in three years. We deeply regret the failure of the Comecon countries to take their due share in the financial assistance to developing countries and invite them once more to do so.

The poorer developing countries require increased concessional aid. We support the soft loan funds of the World Bank and the three regional development banks. We pledge our governments to support replenishment of the International Development Association on a scale that would permit its lending to rise annually in real terms.

As regards the more advanced developing countries, we renew our pledge to support replenishment of the multilateral development banks' resources, on the scale needed to meet the growing needs for loans on commercial terms. We will encourage governmental and private cofinancing of development projects with these banks.

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U.S. Trade Forecast Through 1978

Some Deficit Reduction Seen Ahead, But Year's Imbalance Will Top 1977

Although some reduction in the U.S. trade deficit from the current level may occur in the second half of 1978, it is now apparent that for the year as a whole, imports will exceed exports by a larger amount than in 1977. This outlook is based on the expectation that exports will continue to increase moderately in the remaining months of the year, while imports will slow in the second half compared to the rapid pace in January-June.

In the first six months, exports as reported by the Census Bureau, were running at a seasonally adjusted annual rate of $132.7 billion, while imports rose to an f.a.s. value of $165.5 billion. Thus, the f.a.s. merchandise trade deficit stood at a rate of $32.7 billion in the first half ($43.4 billion c.i.f.). The growth rate of exports over the comparable period of 1977 was 10 percent, while imports climbed by 15 percent.

A major factor underlying the expansion in the trade deficit so far this year was the shift in U.S. trade in manufactured goods from a surplus in 1977 to a deficit. Even though exports of manufactures are expected to continue growing in the second half and the surge in imports of these products will diminish, a deficit in manufactures trade is likely to be recorded this year for the first time since 1973.

Prospects for U.S. exports in the remainder of the year continues to be dampened by the below-average economic performance of the major industrial countries which constitute our major markets abroad. Since little pickup in business activity is forecast for these nations, U.S. sales to them are likely to record only a moderate increase again this year. Although some further policy initiatives may be undertaken to stimulate economic growth in certain developed countries, there would probably be only a limited effect on U.S. exports this year. On the other hand, the sharp depreciation of the dollar relative to the currencies of several major industrial nations which has been underway since late in 1977 may help boost U.S. sales in these markets.

Shipments to the world's developing countries are likely to remain in the forefront of the overall U.S. export expansion. Sales to the non-oil exporting nations within this group have accelerated substantially, largely reflecting improved economic conditions in key markets. Although the non-oil exporting LDCs' external debt burden remains heavy, increased export earnings from generally high commodity prices and stronger sales to this country and other industrial nations should generate continued growth in demand for U.S. products.

Exports to the oil-exporting LDCs, which have expanded by 17 percent so far this year, should continue buoyant. Growth may be somewhat limited, however, by the fact that increased world oil supplies have necessitated OPEC production cutbacks and lowered revenues since oil prices have been stable for the past year and a half.

Sales to the communist countries are projected to increase following last year's decline. Most of the gain will reflect greater agricultural sales. These increases, coupled with strong demand in other countries and shortages in some supplying nations, are likely to boost exports of U.S. farm commodities by as much as 10 percent over 1977 levels.

The forecast for a slowdown in the growth of imports for the remainder of this year is mainly predicated on the expectation that the volume of non-petroleum imports will moderate following the un-

usually sharp increase in the first half. The generally more moderate rate of growth in the U.S. economy projected for the rest of 1978 is the basic reason for the anticipated slackening in these imports. In addition, a reduction in the quantity of imports in the final six months compared to the January-June level appears likely because the first half surge in foreign purchases resulted in considerable stockbuilding, notably in autos and steel.

A major uncertainty in the import outlook is the effect of rising foreign prices on the total value of purchases from abroad. Large foreign currency appreciations and continued inflation abroad have raised import prices sharply so far in 1978, and further increases in the cost of foreign goods can be expected. While in time the effect of these price hikes should dampen U.S. demand for foreign goods, the more immediate impact is to lift the dollar value. Thus, although a second-half drop in the volume of nonpetroleum imports is anticipated, further advances in prices could boost the overall import value in this period. Additionally, imports of petroleum are expected to rebound in the second half, though the full year value may be lower than in 1977.

Machinery shipments to rise

Machinery exports, the largest component of U.S. manufactured exports, should continue to expand, despite the generally sluggish investment climate abroad. In the first half, such shipments topped comparable 1977 levels by 8 percent. As the recovery in foreign economies continues, a similar increase should be posted in the second half.

Sales of drilling and mining equipment picked up in January-June, especially in deliveries to the OPEC countries, the United Kingdom, and Mexico, and should continue to expand further during the remainder of the year. The strong growth in deliveries of computers will continue, as demand grows for peripheral equipment and for high-capacity computers—many at lower prices than last year. Shipments of computer parts for assembly by U.S. subsidiaries abroad are also growing at a fast pace. Partially offsetting these increases, however, will be further declines in sales of excavating equipment and power generating machinery. Exports of farm machinery, up only slightly so far in 1978, are expected to remain sluggish—retail sales in Canada, by far the largest U.S. market, are below 1977's.

U.S. exports of automotive products to Canada are likely to accelerate in the second half, buoyed by shipments of parts for assembly into cars and trucks for U.S. markets. Automotive shipments to other countries rose rapidly in the first half and will remain strong in the remaining months. Civilian aircraft exports slowed in the first half, but will expand later when deliveries are made on 1977 orders.

Coal exports should continue to recover from strike-depressed first quarter levels, although the value for the year will be much lower as foreign consumers switch to lower cost supplies. Rising U.S. prices and overcapacity abroad will continue to restrain exports of steel and chemicals.

The value of agricultural exports is projected to rise even faster this year than the 4-5 percent increases recorded in 1976 and 1977. Nevertheless, some decline in these shipments will occur in the final half from the exceptionally high level attained in the second quarter of this year. The favorable overall outlook for farm exports in 1978 primarily reflects production shortfalls overseas and an upswing in export prices this year. A sizable increase will be posted in both the quantity and value of wheat sales following sharp declines in the two preceding years. Strong foreign demand for livestock feeds and a sharp reduction in competing supplies from Brazil are the main factor underlying the forecast for a steep rise in soybean exports.

Slower import advance seen

Much of the second-half growth in imports is likely to come from a rebound in imports of petroleum, which dropped considerably in January-June as a result of a sharp reduction in stocks and increased domestic production. These purchases are expected to expand by several billion dollars in the final six months as imports grow to a level more nearly equal to the shortfall between U.S. production and consumption. Oil imports may also be boosted by inventory rebuilding, stimulated by the anticipation of a possible OPEC price hike in 1978.

Despite a second half upturn, however, petroleum purchases for the year could be significantly less than in 1977. The increase in U.S. consumption is expected to be quite moderate as a result of the growing impact of conservation measures and the greater availability of alternate fuels. At the same time, domestic crude oil production will be higher than last year because of increased supplies from Alaska. Also, in contrast to last year when a massive stock buildup added well over two billion dollars to the oil import bill, import requirements this year will probably be lessened by a net stock reduction.

U.S. petroleum purchases for 1978 could be significantly less than in 1977, despite second half upturn.

After advancing rapidly in the first six months, other imports are expected to be much less buoyant in the remainder of the year. Receipts of steel, a leading factor in the first half surge, should be substantially lower in volume—although higher in price—as a result of the trigger price system for monitoring the inflow of steel. Activity in the first four months, however, indicates these imports are likely to surpass last year in quantity, and, because of rising post-April prices, will be much higher in value.

Automobile imports from Japan and Western Europe, another major contributor to the first half advance, could slow somewhat as a result of slightly weaker sales and mounting inventories so far this year. Nevertheless, the planned introduction of numerous new models in the coming months could spur both inventories and sales. In either case, auto imports are likely to remain high as a result of rising prices caused by yen and mark appreciation as well as by the shift toward more expensive models.

Following fast growth earlier in the year, imports of machinery and other capital equipment could begin to level off during the final six months. While capital goods imports from Japan and Europe have been expanding rapidly here due to those nations' technological advances and aggressive marketing, their competitive position should be reduced by the substantial realignment of currencies. Receipts of trucks, mainly from U.S. affiliates in Canada, are also unlikely to maintain the accelerated pace of the first half, although U.S. sales are expected to remain at record levels through the year.

Food and beverage imports, meanwhile, should maintain the mixed pattern of the first half. Falling coffee prices and depressed sugar prices will result in substantially reduced values for these commodities. Strong demand, higher prices and increased import quotas, on the other hand, will boost the value of meat purchases from last year's levels.

CANADA

Economic Indicators Show Some Improvement

Canada's economy is expected by Kenneth L. Fernandez of the Bureau of Export Development to continue to grow slowly throughout this year. The overall performance, however, should be somewhat better than in 1977. Employment will register new gains, although unemployment will remain high. Consumer prices may accelerate at a slightly lesser rate than the 8 percent average registered last year. GNP for 1978 will most likely rise about 3.8 percent—somewhat lower than the 4.5 percent predicted by the Canadian Government earlier this year.

Canadian exports should hold up well in 1978, reflecting the recovery in major markets of the United States and elsewhere. Exporters to the Canadian market will experience a rising market, tempered by an adverse shift in the terms of trade occasioned by the drop in the value of the Canadian dollar, which lost more than 13 percent against U.S. currency in 15 months. Firms shipping to the Canadian market will face stiffer competition from Canadian sources whose price position has been enhanced by the shift in exchange rates.

In the first quarter of 1978 the weighted price index for imports increased 4 percent over the fourth quarter of 1977 while the index for exports increased 3 percent. More significantly, when compared with the first quarter of 1977, the increase was 14 percent for Canadian imports and 8 percent for exports.

Retail sales this year are growing rapidly, rising through February to a total for the two-month period of C$8.9 billion. Sales in February were up 13.5 percent over a year earlier, while sales in January were up 9.7 percent, reflecting in part the Federal income tax cut of C$100 in January and February. This surge in retail sales is expected to continue in the coming months spurred by the temporary reduction in the provincial sales taxes announced in the Federal budget on April 11. These taxes, which vary from province to province from 7 to 11 percent, will generally be reduced by 3 percentage points for six months or, alternatively, by 2 for nine months. If the taxes are reinstated this fall or winter as scheduled, sales may falter at that time with the interim sales surge simply representing advanced purchases that would have ordinarily been made later in the year.

Employment at the end of March was up 3.5 percent over a year earlier, with 330,000 more people gainfully employed. Expansion of the labor force, however, outpaced the rise in employment, and seasonally adjusted unemployment during the four-month period March-June remained at 8.6 percent, the highest rate posted since the series began in 1950. It should be noted, however, that the number of heads of households as a total of the number of unemployed has declined over the years as more youths and women have joined the work force.

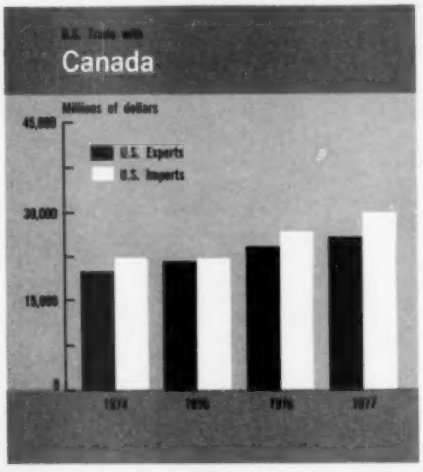
This factor, plus liberal unemployment benefits, has helped to maintain consumer demand.

Domestic consumer prices are expected to increase by about 7.5 percent this year. The rate of inflation will be influenced by further increases in administered energy prices, the impact of currency depreciation on the cost of imports and by a large rise in food prices. The impact of the phasing out of the Anti-Inflation Board (AIB) from April 15 over the next year on wage demands and prices remains an unknown quantity. Initial indications are that wage demands will be moderate, that some effort will be made to recoup wage losses under controls, and that major demands will be made for expanded benefits. High unemployment, slack demand and excess-manufacturing capacity (manufacturing capacity utilization in the first quarter of 1978 declined to 82.7 percent from 83.3 percent in the preceding quarter) may temper demands.

New regulations

Refrigerators and combination refrigerator-freezers manufactured after Sept. 30, 1978, will be required to bear a label showing a declaration of energy consumption in accordance with Canadian Standards Association measures, under a proposed federal regulation. Canadian imports from the United States were about $22 million in 1977. Details are available from the Assistant Deputy Minister (Consumer Affairs), Department of Consumer and Corporate Affairs, 1 Place du Portage, Ottawa/Hull Ontario, Canada K1A—0C9.

The "Energuide" label stating kilowatt-hours used per month will later be applied to other major household appliances such as freezers, dishwashers, electric ranges, clothes washers and dryers, and oil and gas furnaces as part of an effort to conserve energy.



Note: Exports to Canada are undercounted, because of unfiled declarations and the omission of domestic freight costs, by the following amounts in 1974-77 in millions of dollars: 1,907; 1,818; 2,239; and 2,377.

The complete ban on the sale of soft drinks in non-refillable bottles in the Province of Ontario scheduled to take effect April 1, 1978, has been cancelled. Instead, the Ministry of Environment has obtained a commitment from the Canadian soft drink industry to put 75 percent of its soft drink sales in refillable bottles by Dec. 31, 1979. Other minor changes were also made governing the display of soft drinks and the use of tab-top cans for beer and soft drinks.

Markets vary

During the remainder of the year the market for U.S. goods will vary considerably from one province to another and from one industry sector to another.

Within the **Maritime provinces** continuing development of the area's energy potential will provide some sales opportunities in spite of slower than average economic growth. Developments related to exploiting the 200-mile limit should stimulate sales of commercial fishing and fish processing equipment.

Quebec, with its high unemployment and strict provincial French language labelling law, is not the best area in which to introduce new consumer items. It is, however, a promising market for security-related equipment, electronic components, energy and heating systems and process control instrumentation.

Ontario importers are also exhibiting a degree of caution. Demand is good, however, for electronics and communications equipment, hardware, housewares and gift items.

The **Manitoba** market will present good investment opportunities in aerospace, health services, electronics, chemicals, plastics and other high technology industries. The market for farm machinery and consumer items is expected to remain soft.

Saskatchewan has also been affected by a deadline in farm income. This, however, has been offset to some extent by developments in the mining sector and opportunities look good for machinery in the resource sector.

In **Alberta** the best sales prospects will be found in oil drilling equipment and supplies, capital goods for the chemical industry, construction equipment, process control instrumentation and heavy transport vehicles.

British Columbia's growing exports of lumber and paper products have been leading the expansion of its economy. Wood products, harvesting and processing equipment, fresh and processed food, and a wide variety of consumer products should find a receptive market.

U.S. EXPORTS TO LATIN AMERICA ARE EXPECTED TO RISE BY 10 PERCENT

Improving Economies Increase Demand

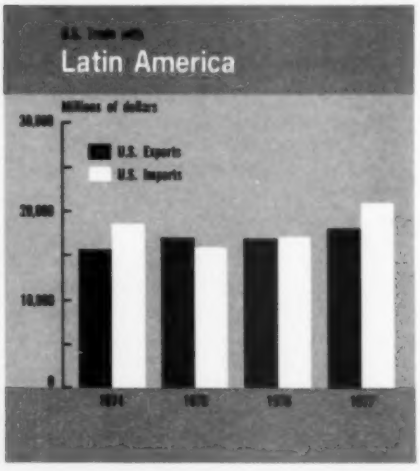
Growing foreign exchange holdings and improving economies are the overall rule for Latin America, where demand for most of the region's products in world markets has been good, according to Frederick J. Tower of the Bureau of Export Development. As a result, purchasing plans are generally buoyant and U.S. sales are up in 1978, with indications that exports for the full year will exceed those of last year by about 10 percent.

Latin America's credit experience has been good and the area is well regarded by international capital markets. The Inter American Development Bank made $452.9 million available to its member nations for development projects through June 30 of this year. The World Bank approved 49 loans in fiscal year 1978, which ended June 30, for a total value of $2.1 billion. Many of these projects involve significant procurement of capital equipment for which U.S. firms are eligible to bid.

Largest markets are Mexico, Venezuela and Brazil in that order, with encouraging indications that demand for U.S. products will be high in each.

Mexican recovery is solidly based. Oil exports, which are showing a strongly rising trend, are a major new factor—part of a long-range development plan to use subsoil resources to benefit the economy. Industrial production is recovering from its recent recession levels with indications of continuing growth. Purchases from abroad have risen with import permit liberalization, which has already freed many items from import permit requirements, opening some significant markets to U.S. exporters.

Brazil projects possible increases of 10 percent in its imports from the United States because of increased grain requirements. Sales of manufactures and other non-wheat items are expected to rise also but are being carefully watched by government planners seeking to hold down a potential trade deficit. The economy is expected to grow, based on the strength of industrial activity, which increased in the first quarter of 1978 by more than 6 percent over the comparable 1977 quarter.



Venezuela's ambitious development plan and its apparently widespread desire for international products justify a forecast of record imports of $10 billion in 1978, up 40 percent over last year. Some restrictions have been imposed on consumer goods imports in an effort to hold down purchases from abroad, but most U.S. firms will find an excellent market in Venezuela in the foreseeable future.

Argentina's economic recovery is continuing, with a large trade surplus due to favorable prices for its products. Trade between the United States and Argentina has been growing, and in 1977 the United States had a larger trade surplus with Argentina than with any other country in the region. Some decline in economic activity due to anti-inflationary measures has taken place, but it is not yet clear if foreign trade will be significantly affected.

Trends in other countries

In the rest of the Andean Common Market, prospects are for strong growth. Colombia's purchases from the United States went up more than 20 percent in 1977, with indications that 1978 will see a continuation of the growth trend. Ecuador is again one of the fastest growing markets in the hemisphere, with record imports in 1977 from the United States; there are signs that this growth will continue through 1978.

Peru presents a different picture from the rest of the area. The economy is in a period of adjustment, with inflation at the high rate of 40 percent, a burdensome foreign indebtedness and austerity measures intended to return the country to a more favorable situation. A continued decline in U.S. sales is foreseen.

In the Caribbean, the Caribbean Group for Cooperation in Economic Development created the Caribbean Development Facility to rationalize and coordinate foreign assistance to the area under the sponsorship of the World Bank. The CDF should become a factor in importation and regional development in the future.

ANCOM

Economic Growth Continues In All Countries But Peru

The nations that make up the Andean Common Market, except for financially troubled Peru, maintained a vigorous rate of expansion during the first quarter of 1978, and prospects for the full year are for continued growth. In addition to Peru, the ANCOM countries are Venezuela, Colombia, Ecuador and Bolivia.

Donald T. Mathes of the Bureau of Export Development reports that two-way trade between ANCOM, together with Chile, and the United States expanded at a healthy rate during 1977, with the balance-of-trade remaining in favor of ANCOM, and the U.S. showing a $700 million deficit. U.S. exports to these markets rose by 15.9 percent to $5,752 million in 1977 from $4,960 million in 1976, while imports rose 16.9 percent from $5,485 million in 1976 to $6,456 million in 1977.

Following adoption of the important Automotive Vehicle Sectoral Development Program in September 1977, the ANCOM Junta has submitted three sectoral proposals so far this year. These are the Chemical, Electronics and Telecommunications, and Pharmaceutical Industry Sector Programs. The twenty-fourth ordinary session of ANCOM was held in mid-April and adopted the "Arequipa Protocol," which essentially extends for one year all deadlines associated with Sectoral Programs for Industrial Development (SPID), the Common External Tariff (CXT), and trade liberalization. The Metalworking and Petrochemical SPIDs are expected to be adopted later this year with little change.

Venezuela. Venezuelan imports in 1978 are expected to reach an all-time high of nearly $10 billion. The growth is anticipated because of the country's ambitious development plan, coupled with a buying spree by government agencies, the private sector and the Venezuelan consumer. This year is projected to show an increase of imports by 40 percent over 1977, itself a record year. Imports in 1977 increased almost 300 percent over 1973, the year prior to OPEC's massive price increase for world petroleum.

The burgeoning rate of imports, together with inflationary pressures have prompted the Venezuelan government to impose austerity measures in an effort to rein in an economy on the verge of overheating. With international oil prices and Venezuela's overseas oil markets remaining static, the country's balance of trade is rapidly approaching its first deficit in recent history, as well as the government's first lapse into deficit spending in the public sector. These two problems are expected to continue into 1979, because the

government is facing an election campaign in December 1978 that has hampered its efforts to cut back on the "OPEC lifestyles" to which many Venezuelans have become accustomed. Government development plans continue to emphasize agriculture, petroleum, construction and manufacturing. In the agricultural sector, the economy has become more dependent on imported food products, as Venezuelans abandon farming for urban life and more affluent consumers look for high-protein products rather than the more traditional staples. The United States continues to be in an excellent position to improve its market share.

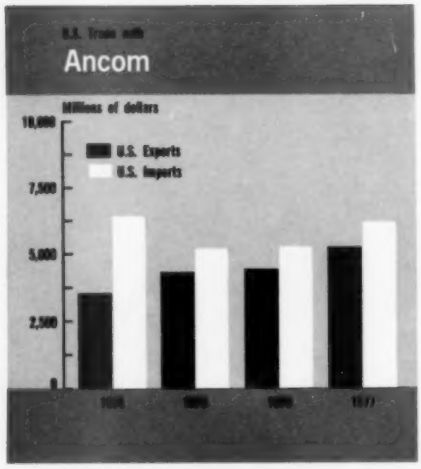
Second priority on Venezuela's agenda is the modernization of the petroleum sector with new equipment, exploration of off-shore areas and research on exploiting the massive heavy-oil deposits in the Orinoco. The industry has earmarked $20 billion for expenditures over the next ten years in an area where the United States has traditionally been the major supplier.

Construction is rebounding, and housing is receiving attention from a people with rising expectations and incomes. United States construction equipment and technology are in high demand, with lucrative contracts available for United States firms willing to work with Venezuelan firms.

For 1979, the Department of Commerce has scheduled a range of exhibitions in Caracas to take advantage of the Venezuelan market: Petroleum/Gas—June 5-9, Construction and Mining—Aug. 7-11, and Health Care—Sept. 11-15.

Colombia. U.S. exports to Colombia were up 21 percent to $903 million in 1977, and the outlook is good for their continued growth in 1978. Recent import liberalizations have largely been in products in which the United States is a strong competitor. Major investments will continue over the next several years in hydroelectricity, petrochemicals, mining and petroleum exploration and the general construction industry. Other markets of interest to U.S. exporters include agricultural and textile machinery, equipment for the telecommunications, health care and printing and graphic arts industries and systems and equipment for airport and port development and general business modernization.

Some progress has been made in the battle against inflation; restrictive monetary, fiscal and exchange rate policies reduced it to approximately 20 percent. With international reserves above $2 billion, capital goods imports increased by 16 percent, real construction activity is up 18.2 percent and employment has increased by 7 percent in the four principal cities, reflecting a recovery in the construction industry and the replacement and modernization of existing plant and equipment. If the inflation rate continues to drop, the new government which takes office in August, should achieve rates of growth above 7 percent in subsequent years.



Ecuador. Ecuador is among the top ten Latin American markets for U.S. exports, and it will continue to be one of the fastest-growing markets in the Western Hemisphere.

Several factors indicate a growing economy and a vastly improved investment climate. They include record 1977 imports from the United States of $564 million, the stability of the Ecuadorean currency, rational international borrowing, the settlement of outstanding claims of nationalized oil companies, industrial and infrastructural development, and a return to civilian democratic government in July.

The Ecuadorean inflation rate, at an annual rate of 14.6 percent through April 1978, is slightly ahead of 1977. Ecuador's Gross Domestic Product continued to grow impressively in real terms (7.7 percent in 1977), despite a lag in the crucial petroleum sector. Petroleum sector recovery in 1978 will stimulate the public sector, resulting in GDP growth at least equal to 1977.

American products are generally preferred in the local market because of quality, durability, rapid delivery, good follow-up servicing, and easy accessibility to spare parts. Strong opportunities for U.S. sales of materials, equipment, and consulting/supervising services are available in the following sectors: petroleum and petrochemicals, hydroelectricity and irrigation, fishing and fish processing, food processing, metalworking and agricultural equipment. Specific joint venture proposals include containers and beer bottling, asbestos roofing, cosmetics, plastics shaping, small appliances and electrical equipment, food processing, packaging and canning.

Bolivia. Last year was generally a good year for Bolivia, even though real economic growth slowed to 4.8 percent, compared to the 6-7 percent growth rate of recent years. Main reasons for the decline were a 3.2 percent decline in agricultural production, and a 14.7 percent fall in petroleum output. Economic indicators showed other sectors continuing to grow rapidly, with La Paz electric consumption up 7 percent, gasoline sales up 8 percent and urban construction continuing to boom; cement consumption soared 22 percent. Mineral production and exports rose by 30 percent, buoyed by rapidly rising tin prices. Government spending continued at a rapid pace, budgeted to increase 23 percent, with investment, especially for infrastructure projects, at a high level. Private investment also was up with $108 million in new investment projects registered with the government investment institute. Two growing concerns were the rate of inflation, which rose to 17 percent compared with 10-12 percent in the 1975-76 period; and the 14.7 percent drop in Bolivian petroleum production.

The United States' share of the Bolivian market increased from 24.7 percent in 1976 to approximately 33 percent in 1977 as U.S. exports rose from $133.3 million to $214.2 million. Industrial machinery and transport equipment accounted for 62 percent of 1977 U.S. sales. Best prospects for 1978 are minerals extraction and processing equipment, airport equipment, including navigation aids, hospital equipment, grain storage silos, and systems for the production of low cost housing.

Peru. U.S. exports to Peru declined to an estimated $99 million during the first quarter of 1978, down from $124 million in 1977. Full year U.S. exports to Peru are expected to continue at a slow pace.

Several factors combined to limit U.S. export potential, including Peru's high rate of inflation (currently 40.5 percent), the high level of external debt, the pressing need to renegotiate its foreign debt, the continuing devaluation of the sol, the lack of foreign exchange, increased import duties, and new domestic tax adjustments and austerity measures.

Chile. The economic policy of the present Chilean Government has gradually transformed a state-controlled economy into one dominated by free-market forces. Major ingredients of this policy include a schedule of devaluations of the peso against the U.S. dollar totaling 21.4 percent in 1978; a gradual reduction in import tariffs to 10 percent on nearly all products other than automobiles and trucks by June 1979; and an easing of credit availability together with lower interest rates.

Chilean import registrations for the first five months of 1978 show an increase of 24 percent over the January-May period of 1977. The inflation rate has continued to decline during the five-month period ending May 1978, indicating a possible reduction to a rate of 32.4 percent for full year 1978, compared to 63.5 percent at year-end 1977. Gross Domestic Product, which grew by a healthy 8 percent in real terms in 1977, is expected to expand at a

comparable rate in 1978 and on into 1979.

Chile's economic recovery plus some changes made in March 1977 to the Foreign Investment Law have bolstered international confidence in Chile and attracted foreign investment capital and credits. The changes in the law eased restrictions on the remittance of profits and the repatriation of capital and gave foreign-owned companies an option on the payment of withholding tax.

Current U.S. export opportunities to state enterprises include major projects in hydroelectric power development, modernization of pulp and paper facilities, improvements in copper mining facilities, petroleum exploration, telephone expansion, and hospital and medical equipment. The private sector offers opportunities for U.S. exports in the mining, agriculture, food processing and agro-business, fisheries, forest and paper industries.

(Table on page 48 includes U.S.-Chile trade data.)

U.S. Trade with the

Caribbean

(Millions of dollars)

Country	Exports 1976	Exports 1977	Imports 1976	Imports 1977
Bahamas	199	224	670	1,058
Dominican Republic	432	424	523	637
Haiti	150	203	148	168
Jamaica	285	270	312	345
Netherlands Antilles	248	304	1,174	1,292
Trinidad & Tobago	309	306	1,500	1,677

CARIBBEAN

New Development Facility Should Improve Market

The Caribbean import market should get a substantial boost for the next several years from the new Caribbean Development Facility, reports Frederic G. Kayser of the Bureau of Export Development. In June the Caribbean Group for Cooperation in Economic Development met under the chairmanship of the World Bank and created the Facility, which will rationalize and regulate foreign financial and technical assistance to the area. Drawing from a number of European and Latin American countries, in addition to the old bilateral donors, the CDF will foster cooperation and finance essential imports and development projects at an annual average expenditure of $125 million over the next three years.

Dominican Republic. The Dominican economy has slowed after seven years of significant growth, with real GNP increasing by only 3.3 percent in 1977. Besides low sugar prices, a lengthy drought hurt agricultural production, and construction was depressed. Strong coffee and cacao prices, however, plus inflows of development capital left a $59 million balance of payments surplus at the end of 1977. After a small decline in 1976, imports rose by 11 percent in 1977, with a U.S. share of 50 percent.

The economy remains strong, overall, and offers a favorable investment climate and attractive construction, mining and sales opportunities for U.S. firms. Large projects include roads, dams, irrigation works, airports, breakwater and dock works, hospitals and the State Sugar Council's plants. Hotel and restaurant equipment are needed by the tourist industry. Buses, trucks, trailers, food processing and business equipment are in demand. So are many consumer items like home electrical appliances, but consumer goods are not eligible for Central Bank official foreign exchange and must be financed through the "parallel market" where the peso floats freely against the dollar rather than on a par as in official transactions. Thus, dollars are at about a 25 percent premium.

Three industrial free zones—at Santiago, San Pedro de Macoris and La Romana—offer attractions to U.S. investors and exporters. Plants enjoy a 15-year tax holiday, and materials may be imported, processed and reexported duty free.

Trinidad and Tobago. Trinidad is the fastest growing market for U.S. goods in the Caribbean with a 1977 total of $1,677 million against $1,500 million for 1976, up 12 percent. This strong trend should continue in 1978. Agricultural products make up a high percentage of these imports, but the majority are in capital goods, such as oilfield and construction equipment, metal working machinery, and equipment for refrigeration and the chemical and plastics industries.

The most attractive prospects lie with the major projects in Trinidad's industrialization plan, financed largely from oil revenues. These include a third fertilizer plant; an industrial estate and port with needs for power generation, water supply, access roads, telecommunications and housing; an aluminum smelter, a polyester fiber fabric plant, petrochemicals, methanol and cement plants. Smaller projects in metal and plastic and assembly/manufacture of small agricultural tractors are attractive. While Trinidad's reserves are rather large, additional investment is needed for the extensive program. Opportunities exist for investment by small and medium sized U.S. firms with comparable scales of production and transfer of technology.

Haiti. A small, growing market, Haiti offers a steady outlet for U.S. goods, with 1977 imports of $168 million, up $20 million over 1976. With increased foreign assistance and remittances by expatriate Haitians, a comparable increase is possible for 1978 with construction equipment, building supplies and food heading the list. Planned new road projects may come onstream in late 1978. Excellent opportunities exist for light industry (other than textiles), with a favorable investment climate and good air and sea transportation to the United States.

Jamaica. Critical foreign exchange shortages and balance of payments levels continue to cripple the economy. Very tight import restrictions complete a dreary market picture. A new long-term arrangement with the International Monetary Fund should give the government some breathing space to turn the economy around and may encourage other foreign assistance. Food, pharmaceuticals and medicines, agricultural equipment and supplies, fertilizer and some raw materials head the list of priority imports.

Bahamas. The Bahamas remains a strong importer of U.S. consumer goods with U.S. market shares averaging between 70 percent and 73 percent the last three years. Improved revenues from tourism allowed U.S. exports to increase to $224 million in 1977 as compared to $199 million in 1976.

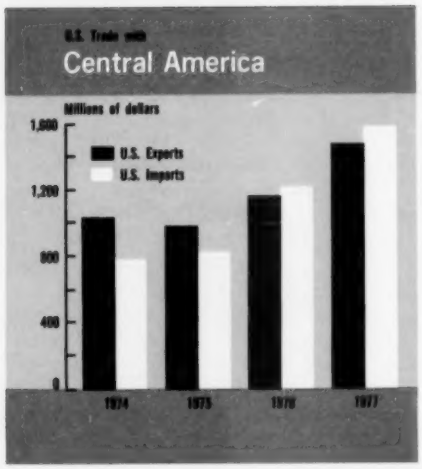
Netherlands Antilles. Quality American consumer goods tend to be well accepted by the sophisticated, middle-income Antilleans and South American tourists. Tariffs are low except on large luxury items.

CENTRAL AMERICA

Region Offers Continuing U.S. Trade Opportunities

This year will be seen as one of adjustment for the economies of the countries comprising the Central American Common Market—Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. After a year of healthy economic performance in which the region actually ran a trade surplus with the United States, the individual governments are seeking to channel their record-breaking export earnings, led by coffee, into the most productive areas. To that end, they are mapping out major infrastructure projects which will continue to offer excellent trade opportunities for U.S. exporters, according to Walter M. Bastian of the Bureau of Export Development.

To date, 1978 has been a year of change in Central America. While the region should experience continued high economic activity, the composition of factors will change. A shift from unusually high coffee export earnings will place greater emphasis upon investment and capital inflow as growth elements. Additionally, two of the CAMC countries have seen changes



in their political administration (Costa Rica and Guatemala).

Four factors will bear watching in the next few months. These factors are the prices of agricultural commodities upon which the region is heavily dependent for its export earnings, liquidity, private sector investment and finally, the performance of the U.S. economy which seems to parallel the ups and downs of the CACM economy. Growth in the region should average about 6 percent in 1978.

CACM's heavy reliance on a large variety of imported capital equipment, industrial raw materials and consumer goods provides U.S. suppliers with a ready-made market. The best opportunities for sales in the near term will be in energy generating systems and equipment, heavy construction machinery, transportation equipment, chemicals and manufactured goods of all types. Also, there is a growing need for engineering and contracting services in the near and medium term.

Agriculture remains the base of the regional economy and there is a strong desire to develop that base vertically as well as to diversify and expand it. Hence, there is a growing market for sales and investment in food processing, textiles, agricultural chemicals and fertilizers, fishing, forestry management and equipment and cattle raising.

In March, the Secretariat for Central American Economic Integration (SIECA) distributed a draft instrument that would implement the new tariff rates that it is simultaneously trying to develop. The draft contains a number of significant recommendations for the reform of the Central American Common External Tariff, including the following:

A council, representing the executive branches of the five Central American governments, would be authorized to establish quotas or to take other compensatory actions in order to prevent "dumping" or unfair trade practices by third countries; all commodity groups not under the Central American Common External Tariff would be brought under the new regime within two years; a Central American common tariff on exports would be implemented within a five-year period; and the tariff structure would be simplified by a shift toward only ad-valorem duties and the elimination of surcharges.

Panama: Outlook Brightens

Panama's economic difficulties during 1977 are popularly viewed as having been linked to the absence of the Canal Treaty ratification. The recent ratification should provide a boost to the economy, mainly by removing a major element of uncertainty. Also, the substantial financial benefits accruing to the Government of Panama under the new treaty—an estimated $60-$70 million annually—should bolster the government's investment program and borrowing capacity. Treaty related public sector investments should stimulate employment and economic activity, particularly in construction and related industries. The Government of Panama's ambitious $2.7 billion, Five-Year National Development Plan initiated in 1976 and the projected five-year EXIM, AID and OPIC financial assistance of almost $300 million contemplated in connection with the new treaty offer vast opportunities for U.S. products and related services in the near future. Good prospects exist in such sectors as minerals, commercial fishing, agro-industries, energy generation, transportation, low-cost housing, and tourism. Noteworthy for possibilities for more U.S. contract work and machinery and equipment are the joint Government of Panama and U.S. private company projected ventures concerning the $1 billion Cerro Colorado copper project in Chiriqui and the $47 million Puerto Armuelles oil storage and transshipment facility for the transport of surplus Alaska crude oil to the U.S.'s Gulf and East Coast refineries.

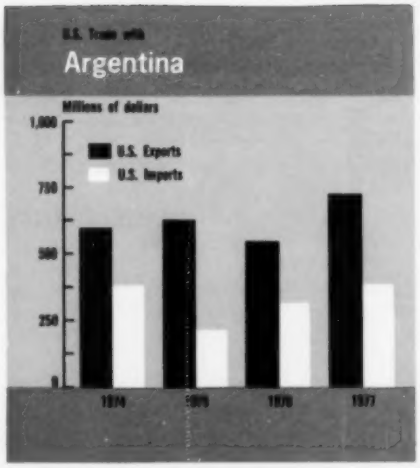
ARGENTINA

U.S. Trade Surplus Gains Despite Economic Woes

U.S. trade with Argentina, which has traditionally resulted in favorable trade balances for the United States, will continue to grow in 1978, despite economic trouble in Argentina, according to James L. Blow of the Bureau of Export Development.

In 1977, U.S. exports to Argentina totaled $731 million (up 34 percent over 1976) and U.S. imports from Argentina were $392 million (up 24 percent), giving the U.S. a trade surplus of $339 million—the largest U.S. surplus in Latin America.

Although these growth figures reflect an active economic picture, not all is positive in Argentina. Inflation is currently at 170 percent with no sign of reduction despite a tight monetary policy adopted by the



government in late 1977. These measures have brought a sharp decline in economic activity in the first quarter of 1978. Production is expected to pick up during the remainder of 1978, but it is unlikely that the Gross Domestic Product will exceed last year's levels.

The government adopted new stabilization measures which it hopes will bring down the rate of inflation in the second half of 1978. Low real wages continue to be a source of labor discontent, but the government has thus far prevented labor disputes from erupting into serious conflicts. One safety valve has been the extremely low level of unemployment.

Argentina's external sector has continued to produce a large surplus in the balance of payments and has raised reserves to record levels, thereby complicating the government's anti-inflationary program. The new monetary stabilization measures will help correct this problem. The reinstitution of mandatory deposits in pesos for foreign financing (20 percent for working capital and 10 percent for trade) will greatly raise the cost of foreign borrowing and therefore help curb the inflow of capital.

The replacement of the "mini-devaluation" exchange rate system by a free market exchange rate based on supply and demand for foreign currency initially resulted in a small revaluation of the peso. In the short run at least, this will lead to a slower rate of devaluation which in turn should help reduce the trade surplus.

Argentina's balance of payment and foreign exchange reserves have become an embarrassment of riches. During the first quarter of 1978, the current account showed a surplus of $245 million, of which $241 million was the result of the positive balance in merchandise trade. These surpluses brought the Central Bank's level of reserves to a record $5.2 billion at the end of April—the equivalent of about 15 months of imports.

For 1978 as a whole, the balance of payments surplus is projected at $2.7 billion,

of which approximately $1.3 billion will be used to pay off the compensatory financing obtained from the IMF and various commercial banks.

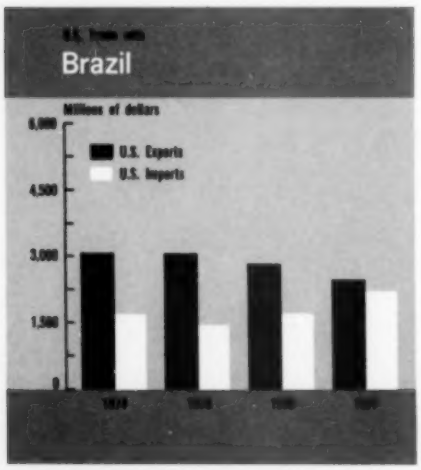
The Argentine economy presents U.S. exporters and investors with attractive opportunities, although growth in U.S. exports may be modest in 1978. U.S. companies already established in Argentina have undertaken moderate levels of reinvestment. U.S. petroleum companies in particular are showing considerable interest in new opportunities; the U.S. Department of Commerce will sponsor a specialized trade mission to Argentina in August with ten U.S. manufacturers of petroleum exploration and drilling equipment participating.

BRAZIL

Difficult Year Foreseen, But U.S. Sales Are Up

The United States, thanks mainly to large wheat sales, is recapturing a larger share of the Brazilian market this year, increasing total sales in an overall flat market, reports Larry Garges of the Bureau of Export Development. According to Brazilian import statistics for the first quarter, the United States had 21.4 percent of the market, compared to only 19.9 percent of the market in the same period in 1977.

U.S. exports through May totalled more than $1.1 billion, with wheat sales of $186 million and non-wheat sales of $950 million. Because the latter figure has averaged 39 percent of annual sales over the past seven years, a projection based on this pattern indicates non-wheat exports of $2.4 billion in 1978. An estimated $350 million or more of wheat exports brings projected U.S. exports to Brazil to about $2.8 billion in 1978. This would be a considerable improvement over last year's $2.5 billion exports to Brazil, and would be close to the level of U.S. exports in 1976 and to the peak level of $3.1 billion in 1974 and 1975. However, vigorous efforts by the Brazilian government to reduce imports in the latter half of the year could bring U.S. exports down to somewhere between the projected $2.8 billion and last year's $2.5 billion.



One of the worst droughts in Brazil's history early this year has triggered large Brazilian grain imports and will greatly reduce Brazilian exports of agricultural products. However, Brazilian officials are hopeful that by year's end the trade account will be in balance. To accomplish this, Planning Minister Velloso recently said that, with an expected $1.5 billion drop in agricultural exports this year, the government will have to reduce its foreign purchasing by about $300-$400 million in order for the country to achieve a trade account balanced at around $11.5-$12 billion. Velloso added that the government will not resort to additional import restrictions on private sector imports.

Brazilian officials expect rising exports of manufactured goods to play a large role in achieving a satisfactory trade account this year. However, Brazilian import growth to date suggests imports in 1978 of $12.5 billion, rather than the $11.5 to $12 billion level sought. If that happens, a deficit in the trade account of $500 million or more would not be surprising.

Brazil suffered a trade deficit of $334 million in the first four months of 1978, with exports 1.2 percent lower and imports 4.9 percent higher than a year earlier. The decline in exports reportedly continued to be almost wholly attributable to lower coffee earnings, while the rise in import payments was due in part to the 6.3 percent increase reported by PETROBRAS in the volume of petroleum imports in the first four months. Petroleum accounts for about one-third of Brazil's imports.

Keeping the trade balance from slipping into a big deficit is vital to the delicate Brazilian balance of payments situation. Brazil's foreign debt has risen rapidly since 1973, reaching $31 billion at the end of 1977, with a consequent heavy debt repayment schedule. Nonetheless Brazil enjoys the confidence of foreign bankers and has had no difficulty in arranging foreign loans.

Industrial activity has picked up in 1978, with industrial growth of 6.6 percent in the first four months compared to a year earlier. Production of consumer goods (up 7.4 percent January through March) and of intermediate goods (up 5.6 percent January through March) is leading such growth. Leading subsectors are: chemicals, plastics, paper and consumer durables, including cars and electrical appliances.

This revived activity in the industrial sector promises to offset declines in agricultural output due to the drought. If the current industrial expansion rate is maintained, the economy as a whole is likely to grow as much as last year—4.7 percent—despite the agricultural declines.

With drought losses pushing up food prices there is no hope of reducing inflation by any significant amount this year. Inflation last year was 39 percent; officials currently speak of 35 percent inflation this year, or simply of inflation "less than last year."

MEXICO

Substantial Imports Needed To Fuel Economic Expansion

As the Mexican economy recovers from the economic difficulties which led to peso devaluation in 1976, the prospects for increased U.S. exports look bright to Walter M. Bastian of the Bureau of Export Development, not only in the short-term, but for the medium and long-term as well.

The reasons for such optimism are numerous, among them: 1) as Mexico's economy resumes a high rate of growth, its imports should rise accordingly; 2) petroleum expansion should fuel new imports, both from the increase in PEMEX investment expenditures and the increase in foreign exchange availability; and 3) Mexican trade liberalization measures remain a possibility in the medium to long term.

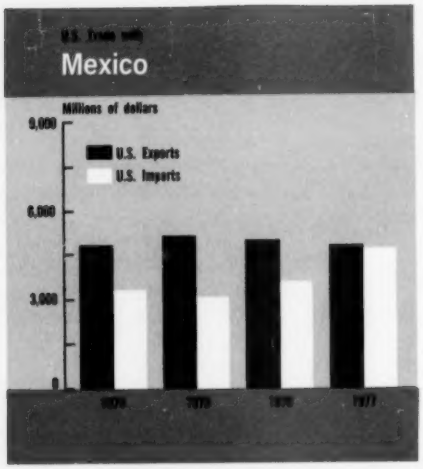
Preliminary statistics for 1978 bear out the predictions of a rapid rise in U.S. exports to Mexico. In the first quarter of 1978, U.S. exports to Mexico showed a 30 percent increase over the first quarter of 1977. While such a large increase is not expected to continue for the entire year, a significant growth in U.S. trade with Mexico is assured.

Mexico's Gross Domestic Product is expected to grow 5 percent this year after 1977's 2.8 percent, and officials are talking about a 7-8 percent rate for the following years. To fuel this growth, Mexico will continue to import substantial amounts of production goods and basic foodstuffs.

The second half of 1977 continued the slow industrial recovery that had been observed earlier in the year. The government has predicted that overall industrial production will increase 7 percent this year in contrast to 1977's 3.5-percent rise.

Steel—The steel industry recovered in 1977 from its disappointing performance in 1976; overall production tonnage rose 4.4 percent over 1976. Steel production is expected to continue to expand during 1978, with industry experts predicting at least a 6-percent increase.

Construction—Prospects for the construction industry are improving. In addition to a gas pipeline project, work has begun on expanding the Mexico City subway, and additional contracts have been granted for roads, dams, and other public works. Although it was feared that higher cement prices authorized in January would dampen construction recovery, cement in-



dustry production and sales are climbing.

Chemical/Petrochemical—Although results varied widely from product to product, the growth of the chemical sector averaged 4 percent in 1977 and there are hopes for doubling this rate in 1978. The petrochemical sector, on the other hand, did not achieve its customary spectacular growth, as PEMEX's petrochemical expansion slowed until August of last year. In October, PEMEX doubled its ammonia capacity with the inauguration of two new plants, and units of another major PEMEX petrochemical complex are scheduled to start production late this year.

Energy—The current administration has set electric power as a key growth area, aiming in 1978 to boost Mexico's generating capacity by 20 percent. A priority goal of the new administration is to reduce dependence on oil-powered plants, thereby freeing petroleum resources for export.

Petroleum—Oil production reached nearly 1.2 million barrels per day during December 1977. Gas production averaged slightly over 2 billion cubic feet per day.

PEMEX announced in March that Mexico would meet its 1982 goal of 2.25 million barrels per day of oil production by 1980. PEMEX's total budget for 1978 calls for expenditure of 180.1 billion pesos, of which 70 billion will go for plant and equipment.

As part of a changing development plan, Mexico continues to modify its system of limiting imports from one of licensing to one of tariffs. To date, many tariff classifications have been exempted from the import permit requirement. As items are decontrolled, tariffs are raised to protect domestic manufactures. Complete tariff restructuring is due by 1982.

The exhibitions scheduled for the U.S. Trade Center in Mexico City include textile machinery (September), quality control equipment (November), petroleum industry equipment (February), motor vehicle maintenance equipment (April) and metalworking equipment (June). In addition, a computer equipment trade mission is scheduled for October.

CONCERTED ACTION IN WESTERN EUROPE NEEDED TO STIMULATE ECONOMIC GROWTH

U.S. Export Expansion Rate Seen Limited

There are only scattered signs of an improvement in the lackluster performance of most of the European economies, reports J. Robert Wilson of the Bureau of Export Development. The unemployment problem remains as serious and intractable as a year ago. Unless the major governments stimulate aggregate demand, U.S. exports to Western Europe this year are unlikely to expand much beyond the 1977 total of $34.8 billion. In the first five months of 1978 the rate of expansion was only two percent.

Although the European economy succeeded in recovering from the deep recession of 1974-75, it has failed to regain the dynamism it displayed during the decade preceding the recession. Most economies, especially the larger ones, seem to be marking time, with their indexes of industrial production moving sideways at levels below their long-term trends. However, in the first four months of 1978 industrial production rose strongly in France and the United Kingdom. On the other side of the ledger, in Italy the strong gains of the first two months have since been wiped out. Germany had an exceptionally weak first quarter, as production suffered from bad weather, foreign exchange market disturbances and strikes—over 3 million working days were lost to strikes or lockouts. Although there was a rebound in April, the index remains below the December 1977 level. As a consequence, German officials have acknowledged that the official GNP growth target of 3.5 percent for 1978 cannot be met.

Last year none of these four major countries achieved a growth rate of 3 percent. At present there is a possibility that the French and British growth rates will exceed 3 percent this year, but only by a slight margin. It is generally recognized that the major European economies have been growing too slowly for too long.

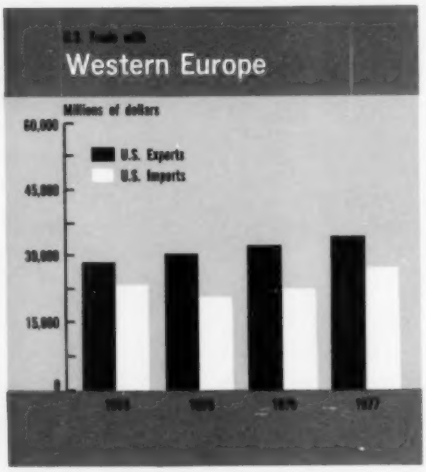
At the mid-June Ministerial meeting of the Organization for Economic Cooperation and Development, agreement was reached on a program of concerted action for the next 18 months. Under this program those countries in a position to do so, and this includes the four major European countries, will ensure that the expansion of their domestic demand is significantly greater than in 1977. As the concerted action program is implemented by the introduction of stimulatory economic policy measures, business confidence and investment should pick up. Although it is questionable whether new measures will serve to boost production, employment, and trade appreciably in 1978, they should improve the outlook for next year.

EEC activities

The heads of the governments of the members of the European Economic Community also addressed this subject at their summit meeting in Copenhagen on April 7-8. They agreed to develop a common strategy over the coming months to improve the economic situation and stated that they considered it essential that the Community achieve an annual growth rate of 4.5 percent by the middle of 1979. Subsequently, however, Chancellor Schmidt emphasized that the German Government did not make any commitments on achieving national growth targets.

Apparently the effort to develop a common strategy was advanced only slightly at the subsequent summit meeting in Bremen on July 6-7. The German Government continued to refrain from making any specific commitment on growth. While a common approach to achieve a "considerably higher rate of growth" was reportedly decided upon and it was agreed that countries without inflation and balance of payments problems should do more to increase domestic demand than less fortunate countries, agreement was reportedly limited to such general statements of principle. The subject of concerted action took second place in the discussions, behind closer monetary cooperation.

The Germans and French submitted a joint plan to create a "zone of monetary stability." This would appear to involve stricter exchange rate management centered on a European Currency Unit, a



certain amount of pooled reserves and a coordinated exchange rate policy vis-a-vis the dollar. In a sense it would amount to an expansion of the European joint float or "snake", which now includes Germany, Belgium, Luxembourg, the Netherlands, Denmark and Norway. There was agreement for further study of the proposal by Community institutions with a view to its adoption at the next European Council meeting on Dec. 4-5.

A notable development in the EEC's foreign relations occurred on April 3 with the signature of a trade agreement with the People's Republic of China. This is a non-preferential agreement of 5 years' duration.

The EEC is paying increasing attention to the question of the modalities of its enlargement from a Community of nine to one of 12 members. The coming months are likely to witness the conclusion of the main elements of the accession negotiations with Greece, the opening this fall of negotiations with Portugal, and progress toward creating the conditions for opening formal accession negotiations with Spain.

Negotiations on the renewal of the Lome Convention will start shortly. This five-year Convention, which expires in March 1980, provides the framework for economic and commercial relations between the EEC and 53 African, Caribbean and Pacific countries. Generally speaking, these countries' products enjoy free access to the EEC market.

Investment and trade

Capital formation in many European countries continues to be reinforced by substantial outlays by affiliates of U.S. companies. As reported in the March *Survey of Current Business*, capital expenditures by U.S. affiliates in Europe in 1978 are estimated at $15.5 billion, an increase of 17 percent over last year. Expenditures by petroleum affiliates operating in the North Sea area from the United Kingdom and Norway will continue to account for a large portion of this investment—$5 billion. Manufacturing affiliates in Germany plan outlays of over $2 billion.

Despite increasing pressures for trade restrictions, governments continue to espouse a liberal trade regime. The aforementioned OECD meeting was also the occasion for the annual renewal of the trade pledge, under which governments agree to avoid unilateral measures to restrict imports. Protectionist forces are also being checked by the progress being achieved in the multilateral trade negotiations in Geneva. This year, after four years of negligible activity, intensive negotiations have taken place and a comprehensive agreement, which will reduce global tariffs and non-tariff trade restrictions in both the industrial and agricultural sectors, can now be envisaged.

The U.S. Department of Commerce is shifting the main focus of its export promotion activities from Trade Centers to International Marketing Centers, which stress assistance to American exporters in participating in European trade fairs. Such Centers will be operating in Cologne, Paris, Milan and London.

BELGIUM

Inflation Rates Decline, U.S. Export Outlook Bright

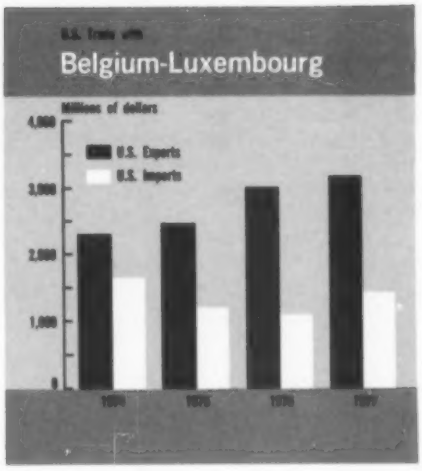
The economic situation in Belgium reflects the continued overall stagnation of its European trading partners, observes Caratina L. Alston of the Bureau of Export Development. Growth in industrial production remains slow, unemployment is rising, industrial investment and private consumption have been expanding at a slower pace. Nevertheless, U.S. export prospects to Belgium appear to be bright for the remainder of 1978 in view of lower inflation rates, competitive unit labor costs, and the depreciation of the dollar vis-a-vis the Belgian franc (10 percent from June 1977 to June 1978).

With some year-end economic pick-up, GNP should increase in 1978 to around $88 billion, resulting in a real GNP growth rate between 2.5 and 3 percent, after a 1.7 percent growth rate in 1977. As a result of a moderate growth in steel and some base metals, industrial production has increased since late 1977. This modest trend should continue through the second half of the year; however, a significant pick-up of business activity appears doubtful.

The most encouraging development in the Belgian economy is the steady fall in the rate of inflation. Inflation rates have declined from their record levels in the mid-1970's to about 5 percent in early 1978. Growth in wages continues to be moderate, although it is still above the inflation rate. Unit labor costs are likely to accelerate in late 1978 and early 1979 as a result of the reduced workweek now being introduced throughout Belgium.

Unemployment has declined from the mid-October level of 8 percent to 7 percent in mid-May. This decline has been attributed to the "Spitaels Plan," named after the Minister of Labor and designed to spread available work through a reduced workweek with no reduction in pay.

With private investment stagnating, the Belgian Government has taken a number of monetary and fiscal measures to revive the economy. Government investment expenditures in the 1978 budget have been set at $5.6 billion—a 20 percent increase over 1977, with special emphasis on labor-intensive sectors (construction, textiles, steel)—including accelerated depreciation and amortization, and elimination of the value-added tax on labor-creating investments. Corporate investment growth over the next five years is projected at an annual average of 2 percent.



The current Belgian national budget deficit is expected to be at least $181 million for 1978, compared to $209 million in 1977. This projection was based on an optimistic real growth rate of 3.4 percent for 1978; however, this growth rate has been revised downward to under 3 percent. Belgian Government plans to reduce the deficit are directed toward combating tax evasion and on possible reform of the social security system. Belgium's national debt as a percentage of GNP is one of the highest in the industrialized world, currently 44 percent—primarily due to the Belgian Government's contracting for about 80 percent of all domestic long-term lending.

The Belgium and Luxembourg Economic Union (BLEU) continues to run a large overall trade deficit with the United States. This deficit was $1,685 million in 1977. BLEU imports from the U.S. rose an average of 4 percent in 1977 (in dollar terms); major categories include machinery and equipment (17 percent); chemicals (19.4 percent); diamonds (44.1 percent); transportation equipment (29.5 percent); metals (7.3 percent); and plastics (7.4 percent). The U.S. share of total Belgian imports was 6 percent in 1977. The balance of payments on current account, on a settlement basis, is near equilibrium.

Sales of traditional, U.S. exports to the BLEU—particularly raw materials and semi-processed goods along with high technology machinery—should continue to be strong in 1978. As restructuring and modernization of Belgian industry continues moving in the coming years, there will be increased demand for sophisticated machine tools and plant equipment. Aviation and

agricultural sales should increase substantially for U.S. suppliers. There is also a sizable market for high-technology pollution control equipment—as the government has increased its spending for environmental purposes ten-fold since the early 1970's. Expenditures for pollution control equipment are expected to reach $635 million in 1978.

Belgian firms remain eager to acquire the newest U.S. technologies either by import or licensing. Automated, labor-saving devices of advanced design will be particularly well received as management attempts to cope with steadily increasing labor costs.

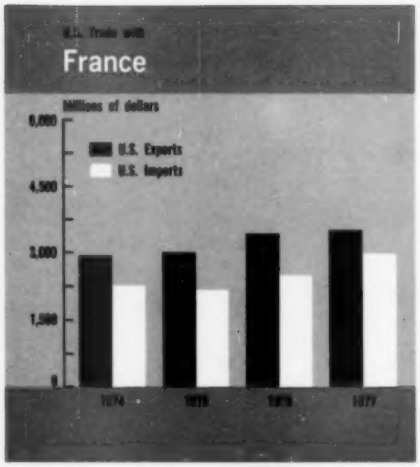
In response to market opportunities, the U.S. Department of Commerce will be sponsoring a chemical/petrochemical processing equipment catalog show, Oct. 10-12; woodworking equipment, Dec. 2-10; food processing and packaging equipment, Feb. 13-18, 1979.

FRANCE

Steps To Revitalize Industry May Benefit U.S. Suppliers

French economic growth of 3.2 percent is forecast for 1978 and prospects for increased U.S. export sales to France appear favorable, reports William H. Crawford of the Bureau of Export Development. As a result of Prime Minister Barre's three-year austerity program begun in September 1976, France has made strides toward recovery from the economic recession of 1974-75. The program has helped to reduce France's balance-of-payments deficit to $2 billion last year from $4 billion in 1976, with the expectation of a surplus in 1978. The program has also reduced inflation from 13 percent in mid-1976 to the present 8 percent. Barre has recently introduced new measures intended to revitalize French industry and provide new jobs and competitive prices. If these measures are successful, U.S. suppliers should benefit with increased export sales in the next few years.

To strengthen and restructure French industry, prices on industrial items such as steel, chemicals and textiles, which have been controlled since 1945, will gradually be freed, enabling firms to recover costs and reduce their debt burden. In addition, firms will be allowed to raise capital by issuing non-voting shares, previously forbidden, and corporate value-added and income taxes will be frozen for two years. With the austerity program to continue until 1980, real growth in Gross Domestic Product (GDP) is predicted to be in the 3 to 4 percent range during this period. Industrial investment is to be approximately 3 percent in real terms for 1978. Consumer expenditures are expected to



grow a little under 4 percent, a slight increase over 1977.

Inflation, which has marred the French economic picture in recent years and recently seemed to be getting under control, will receive upward pressure from French Government plans to gradually free prices on selected industrial items and to let public utilities increase their tariffs by 10-20 percent. It now seems clear that the government's goal of 6.5 percent inflation in 1978 will not be reached, though measures are still being taken to stabilize wage increases and slow down the growth of money supply. The only significant wage increases will go to France's lowest wage earners. The average industrial wage is expected to rise 10 percent in 1978, down from a 12.8 percent rise in 1977.

Unemployment, which had reached a low of 5 percent in January, reached 5.5 percent at the end of May and continues as a major area of concern for the French Government. Unemployment may stabilize at the current level, but the economic recovery is not expected to be sufficient to produce a major improvement in the employment situation in 1978.

Direct U.S. investments are welcome in most industrial sectors, particularly when they provide the kind of technology, capital and marketing support likely to create substantial employment and net exports, and when they take into account the government's regional development considerations.

U.S. exports to France were $3.5 billion in 1977, representing an approximate 2 percent increase over 1976 and a 6.9 percent share of total French imports. The U.S. import share has decreased steadily since 1973 when it stood at 8.3 percent. U.S. exports to France in 1978 are expected to increase 7 percent, exceeding $3.7 billion, maintaining their share of the market. U.S. imports from France totaled approximately $3 billion, representing a 20 percent increase over 1976, resulting in a $0.5 billion trade deficit vis-a-vis the United States. Total French imports are expected to increase 6.6 percent in 1978 and exports, 6.8 percent. Equilibrium in France's balance of payments is expected by the end of the year.

The attempt by French industry to restructure and modernize its plant and equipment should provide a good market for U.S. suppliers and new opportunities to increase the total U.S. share of French imports. Best prospects are in high technology areas including computers and peripheral equipment, both large and small mini-computer systems; electronic components, especially active components; metalworking equipment; laboratory instrumentation; health care equipment; building supplies, fixtures and equipment, especially renovating and energy conservation materials, and air-conditioning equipment; electronic industry production and test equipment; business equipment, including computer terminals, electronic calculating equipment and microfilm equipment; and food processing and packaging equipment.

The U.S. Department of Commerce, through its International Marketing Center (IMC) in Paris, will sponsor exhibitions at international fairs during the next year in the following product areas: boating equipment and supplies; electronic components; aircraft, equipment and supplies; business equipment and systems; microwave technology; microprocessors; and housewares.

GERMANY

Economic Growth Modest, But Imports Seen Gaining

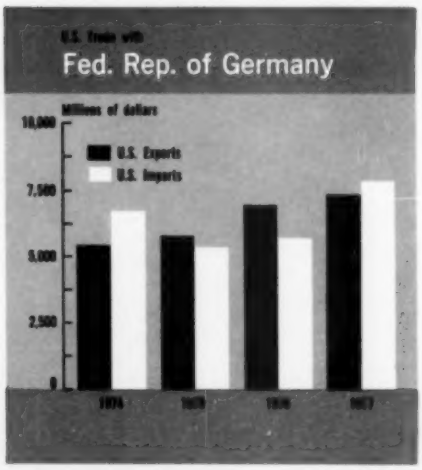
Last year's economic performance was lackluster, with a real growth rate of only 2.4 percent, according to V. Stanoyevitch of the Bureau of Export Development. Since economic activity so far this year has been sluggish, the government's 1978 growth target of 3.5 percent will probably not be achieved. Nevertheless, the outlook for a further expansion of U.S. exports to Germany is positive, as German imports are expected to expand by about 6 percent in 1978 and the dollar/mark exchange rate is advantageous to American exporters.

The mid-July economic summit in Bonn of the United States, Germany and five other leading industrial nations has endorsed policies directed toward achieving more balanced growth, rather than immediate results, and avoiding the pitfalls of protectionism. The German Government has committed itself to participate vigorously in this endeavor and apply reflationary measures at the appropriate time. The summit also endorsed the Bremen resolve to secure a greater degree of monetary cohesion in Europe.

There are several buoyant aspects of the domestic German economic scene. Spurred by low interest rates, the housing industry is staging a rapid and impressive comeback. Although overall industrial production is sluggish, the automobile manufacturers are operating at or near capacity. There is some improvement in the labor picture. As of June, the rate of price inflation had slowed down to a mere 2.5 percent, the lowest rate of increase since 1968 and one of lowest, by far, in the industrial world. Also, as of June, there was a further reduction in the number of jobless which now stands at 877,300, or 3.9 percent of the labor force. The annual wage hikes have generally not exceeded the government guideline of about 5.5 percent, exclusive of fringes and job security guarantees. The resulting increases in real purchasing power, combined with personal tax cuts effective this year and higher housing and family allowances, are boosting consumer spending. Some return of business confidence is reflected in contemplated capital spending this year of nearly 9 percent over 1977.

Depreciation of the dollar against the mark should augur well for U.S. sales to Germany, to the extent that the rate advantages are not eroded by U.S. price increases. Probably reflecting the more buoyant state of the U.S. economy, the U.S. trade deficit with Germany is expanding rapidly. In the first five months of this year, U.S. imports from Germany increased 53 percent to $4,053 million, while our exports declined slightly to $2,573 million.

An analysis of the composition of U.S. exports to Germany last year shows gains in exports of various categories of machinery, particularly office machines, paper and printing machinery, engines, pumps and compressors, leather and textile machinery and agricultural equipment. In the chemicals group, sales of pharmaceuticals, photochemicals, plastics and dyes advanced. Exports of electric equipment, aircraft and optical and precision instruments also increased. Sales of American-made cars, valued at $137 million, more than doubled, compared with 1976.



For the third year in a row, German direct investment in the United States exceeded the investment flow in the opposite direction. Moreover, the U.S. was again the principal recipient, attracting a record of $577 million, or 26.3 percent of total net German foreign direct investments of $2,200 million in 1977. U.S. investment in Germany amounted to nearly $500 million. Because the flow in earlier years was heavily in the direction of Germany, the balance in the cumulative investment position remains strongly in favor of the United States.

In the coming year the U.S. Department of Commerce will sponsor, through its International Marketing Center in Cologne, American group exhibits at seven major international industrial trade fairs in Germany, including Electronica, Didacta, Inter-hospital and Systems.

ITALY

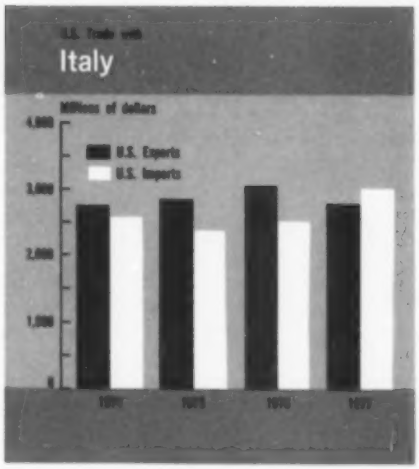
Pick Up In Economy Seen, U.S. Sales To Fare Well

The general slowdown of the Italian economy in 1977 affected trade with the United States. American exports to Italy fell slightly below the $3 billion mark, while imports from Italy increased by 20 percent from $2.5 billion in 1976, resulting in a small trade surplus in favor of Italy. The anticipated pick up of economic activity in the second half of 1978 should improve U.S. export prospects, according to John L. Priamou of the Bureau of Export Development.

Economic stabilization measures adopted by Italy in 1976-77 caused the economy to grow by only 1.7 percent in 1977, with demand for imports falling below the level of the preceding year. Exports, despite the slow expansion of world markets, increased by 7.8 percent.

The United States' competitive position in Italy is benefiting from the relative stability of the lira vis-a-vis the dollar and the depreciation of both currencies against certain strong currencies. This has also helped maintain the price competitiveness of Italian exports in their traditional markets and contributed in moving the overall balance of payments into surplus. The surplus has continued into the first quarter of 1978 and it is anticipated that this progress will be sustained throughout the year. In 1978 a 7.5 percent increase in exports and a 7.1 percent growth in imports is expected.

The continued strong export demand, the sustained balance of payments surplus, and a 4.2 percent increase in industrial production in the first four months of 1978 (up from a 0.9 percent 1977 average) are signs that the economy may be on the upswing—which is cause for reserved optimism and a more confident business attitude. Based on this assumption, forecasts for 1978 point to a 3 percent real GDP growth, with inflation remaining in the 1977 level of 13 or 14 percent.



The Italian economy, nevertheless, is still facing the serious problems of excessive public expenditures, unabated increases of labor costs, unemployment, and stagnant investment. Labor costs during the past years have been rising steadily. There are indications, however, that labor unions are willing to restrain wage demands. With 1.6 million workers seeking jobs, unemployment has passed the 7 percent mark and contributes to the current social unrest. Utilization of capacity has increased somewhat to 75 percent and a further increase is expected in the second half of 1978. Investment continues to be mainly for replacement machinery and some modernization.

Despite the weak investment climate and the underutilization of industrial capacity, demand for U.S. goods is expected to improve this year and regain the ground lost in 1977. Especially strong sales potential exists for highly automated and late technology equipment capable of increasing productivity and reducing the cost of production. In addition to direct equipment sales, there are growing opportunities for licensing, co-production, and other cooperative ventures. Italian companies have shown particular interest in collaborating with U.S. companies in telecommunications, engineering and construction projects in Africa and the Middle East.

U.S. manufacturers of computers and peripherals scored sales successes at the EDP exhibition at the Milan U.S. Trade Center in May. The Italian computer population is well below that of its EEC partners.

Telecommunications equipment repre-

sents a substantial potential market with best prospects in electronic telephone switching systems, microwave and equipment for telecommunications field testing. A continuously growing demand for production process control equipment and instrumentation exists as increasing unit costs remain a source of major concern. Energy is a sector with increasing potential, particularly in systems associated with nuclear installations, the geothermal field, and solar energy.

Other promsing areas include electronic components and electronic industry production and test equipment; pollution control systems; commercial security equipment; and consumer goods such as stereo equipment, electronic games, and portable anti-theft devices.

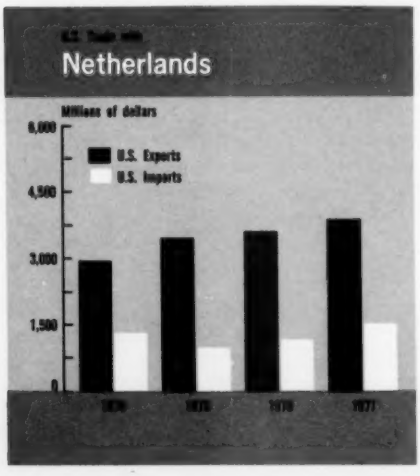
The U.S. Department of Commerce will sponsor exhibitions in Milan during the coming months in the areas of business automation, pollution control, energy systems and computers.

NETHERLANDS

Economic Growth Slow, But U.S. Sales Seen Expanding

The outlook for U.S. exports to the Netherlands continues to be favorable, with increases of 6 percent predicted in 1978 and 1979, reports William H. Crawford of the Bureau of Export Development. Despite the disappointing performance of the Dutch economy in 1977, the Netherlands remains the sixth largest market for U.S. exports, which reached $3.9 billion in 1977. Economic prospects for 1978 are for another year of slow growth, rising unemployment and continued high labor costs. The inflation rate is expected to be reduced to 5 percent and increases are expected in the Dutch export volume, rebounding from a decline in 1977.

Expectations for a continued recovery of the Dutch economy were not realized in 1977 because of a poor export performance. There was a modest GNP growth of 3 percent, and a balance of trade deficit of $800 million, from a surplus of $2 billion in 1976. New government programs totaling $1.1 billion were initiated in late 1977 to restructure certain industries, stimulate employment and reduce tax burdens. In May of this year, an additional $5.8 billion stimulative package was passed to spur private investment and reduce unemployment.



With a large share of Dutch exports aimed at currently depressed world market segments such as shipyards, steel, chemical fibers, and petroleum derivatives, the government has spent $273 million on programs to restructure the furniture, chemical fiber, and steel industries; made available $2.3 million to improve the domestic leather industry; and $411 million for the heavy engineering industry, whose restructuring is regarded as the largest postwar operation to safeguard jobs. The $5.8 billion four-year investment program will use tax credits to stimulate countrywide investment, especially in less developed, high unemployment areas of the country. The goal of the program is to spur economic growth and create 110,000 jobs.

These fiscal programs are expected to have relatively little effect on the economic outlook for 1978, but should stimulate economic growth in the long run. GNP growth should reach the government's goal of 3 percent this year, duplicating the performance of 1977.

Gross investment should expand by 3 percent in 1978 and unemployment, which reached a low of 5 percent in February, is likely to rise to 5.4 percent later this year, leaving 255,000 unemployed. An improvement in the Dutch trade balance may result from an expected 3 percent growth in Dutch export volume, and inflation should fall to 5 percent in 1978 from 6.7 percent in 1977.

Together, public and private investments contributed to substantial expansion of domestic expenditures in 1977 with corporate investments rising 16 percent. Cumulative direct investment of the more than 1,000 U.S. firms in the Netherlands totals $3.8 billion and ranks the U.S. first among foreign investors in the Netherlands; cumulative direct investments by the Dutch in the United States of $6.2 billion makes the Netherlands the largest foreign investor in the United States. These investments substantially deepen the United States-Netherlands economic/commercial relationship.

U.S. exports to the Netherlands in 1977 represented an 8.4 percent share of Dutch imports and a 7 percent increase over 1976. This small increase may have been influenced by the U.S. dock strike last fall. At mid-year '77, U.S. exports to the Netherlands were running almost 15 percent above the same period in 1976. The appreciation of the guilder—15 percent since October of 1976—against the dollar should make American products even more competitive in many sectors of the Dutch market. The appreciation of the German mark, our chief competitor in the Netherlands, vis-a-vis the dollar, should also make United States goods more competitive.

The best sales opportunities will be for products exhibiting high technology and systems that save labor costs—an important factor because of the recent relatively low rate of growth in Dutch labor productivity. Sectors of special promise include packaging and food processing equipment, consumer goods, automotive parts and accessories, computers and peripheral equipment, electronic components, pollution control equipment and instrumentation, safety and security equipment, and business equipment. Other sectors in which the U.S. should continue strong are chemical/petrochemical processing and energy systems.

The Commerce Department is sponsoring a variety of promotional events. There will be U.S. pavilions at AQUATECH in Amsterdam to promote U.S. sales of water technology systems and equipment in September; and at MACROPAK in Utrecht to promote U.S. packaging equipment in May 1979. Catalog exhibitions will be held at Dutch international fairs for business equipment and systems, Oct. 10-18; electronic components, Oct. 30-Nov. 2; food, drug, and chemical processing equipment, Oct. 30-Nov. 4; and housewares, April 1979. A franchising trade mission is to visit the Netherlands November 15-17, 1979.

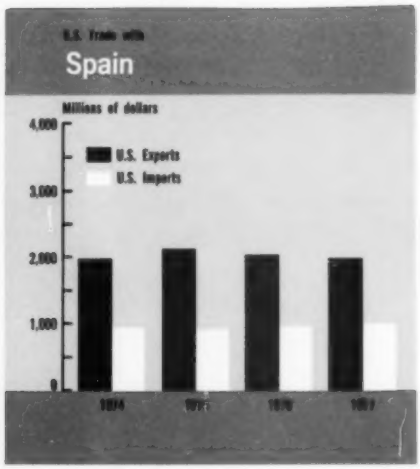
SPAIN

Slow Economic Recovery Restraining U.S. Exports

Spain's persistent economic stagnation may continue to dampen prospects for any rapid growth in U.S. exports. Particularly hard-hit sectors include capital goods and high technology items which may result in a further drop in the U.S. market share, reports Kenneth Nichols of the Bureau of Export Development.

Spain's GDP is expected to grow by only 1-2 percent in 1978, as compared to 1.8 percent last year. Spain is in its fourth year of economic stagnation, which has been characterized by low productivity and capital investment, high inflation and large trade and payments deficits.

While there was definite progress in curtailing inflation and the trade deficit in the second half of 1977, low productivity and rising unemployment persist. Unemployment reached a high 5.8 percent or 778,400 workers at the end of April.



During the first quarter of 1978 inflation rose by only 3.5 percent as compared to a 7.8 percent increase in the first quarter of 1977. During this same period, the current account deficit was reduced from $1.6 billion to $137 million. Gold and foreign exchange reserves reached a record high of $7.1 billion at the end of April 1978.

In addition to the continuing economic problems, the government of Prime Minister Suarez has also had to focus its attention on the adoption of a new constitution, which is expected to be followed by municipal and/or parliamentary elections. The Suarez Government has also submitted its membership application to the European Communities. Negotiations are expected to begin by early 1979. Spain has long had a preferential trade agreement with the Common Market.

Imports reached nearly $17.8 billion in 1977, representing only a 1.7 percent increase over the previous year. On the other hand, Spanish exports jumped by 17 percent to reach a record $10.2 billion. At the same time, U.S. exports to Spain declined to less than $2 billion.

The government and all major political parties agreed in late 1977 to an economic austerity and structural reform program (the Moncloa Pact) which provides guideline for 1978, including a 17 percent ceiling on monetary growth. To strengthen its program, the government is expected shortly to present a major fiscal reform program which will probably include a value added tax.

Despite heavy trade deficits, the government has avoided new import restrictions in favor of a 20 percent devaluation of the peseta in mid-1977 and its subsequent floating. With the improvement in Spain's current account position, the rate of growth of Spain's foreign borrowings may also continue to decline. Spain's medium and long-term foreign debts, both public and private, are expected to reach $15.3 billion at the end of 1978, an increase of approximately 10 percent over the preceding year.

Despite government optimism, business confidence remains low. Particularly hard-hit industrial sectors include iron and steel, shipbuilding and textiles. Plant and equipment investment was down by over 10 percent in 1977. The low growth in private and public consumption in 1978 could be close to last year's rates with fixed investment expected to decline further. Business is increasingly concerned with labor demands for a formalized role in corporate management and the strength of the government's commitment to a 22 percent ceiling on wage hikes in 1978.

Devaluation also boosted tourist receipts and emigrant remittances in 1977. Both items, along with foreign investment, have traditionally offset Spain's perennial trade imbalance. Spain has long maintained a liberal attitude toward foreign investment as codified in its 1974 Foreign Investment Code and subsequent legislation. Approval has recently been granted foreign banks to set up branches or wholly owned subsidiaries in Spain. The United States remains the leading foreign investor, with total U.S. direct investment reaching an estimated $2.8 billion at the end of last year.

Strong demand for U.S. goods and services exist in the following areas: health care, electrical power, computers and peripherals, process controls, laboratories, security and safety, food processing and packaging, air and water purification and pollution control, communications, and production equipment for the electronics industry. U.S. Department of Commerce-sponsored trade promotion events include a seminar mission on mining equipment in November and a mission on industrial and commercial security equipment in February 1979.

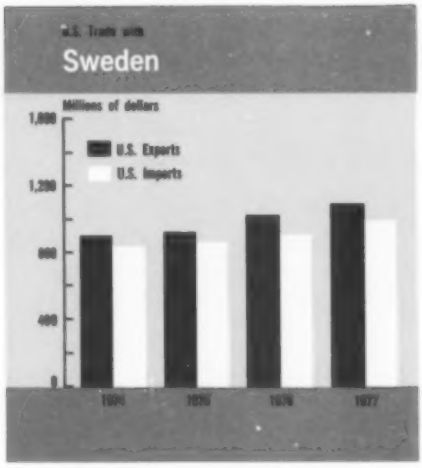
SWEDEN

Economy Still Sluggish, But Trade Picture Is Brighter

Sweden's trade picture is showing signs of improvement. Although there is still a long and arduous haul before the country pulls out of its slack economic situation, prospects now appear a bit brighter, at least in foreign trade, notes James M. Devlin of the Bureau of Export Development.

Devaluation of the krona and withdrawal from the European currency "snake" last year has helped strengthen Sweden's competitive position. Wage restraint and cost consciousness are helping to maintain it. As a consequence, Swedish exports have been expanding during 1978.

In the first four months of this year, exports were up 16 percent over the same



period of 1977. This growth is a continuation of the stronger export sales trend that had developed in the latter part of last year.

Although at the moment imports are still weak, registering a decline of 2 percent in the first four months, improvement is expected. Imports are projected to increase in the remainder of the year. It is forecast that third quarter imports will show a gain of about 8 percent above the same period of 1977. The anticipated pick up in imports however, does not include all product categories. Imports of consumer goods will probably remain slack, while investment goods are expected to show improvement. This situation should be beneficial for U.S. exports, as capital goods, especially industrial machinery and equipment, are the categories in which the United States does well in the Swedish market.

The general economic situation in Sweden continues to be weak despite the changing trade picture. Unemployment remains high and there is still significant excess capacity in many industries. While the GNP in 1978 might not experience a decline as it did in 1977, expectations for a meaningful gain are negligible—there might be a rise of 1 percent. The best that probably can be said about the economy at the moment is that the declining trend has been halted. It cannot be claimed that a corner has been turned. There does seem to be, however, slightly less pessimism now than a short while ago.

Inflation continues to be a serious concern for Sweden, but there are indications that the rate of inflation is showing signs of improvement. Although prices rose as a result of the devaluation, price increases in general are not as severe as they had been during the past several years. Wage rate increases have also moderated from the sharp jumps of a few years ago, helping to keep production costs at a more manageable level.

The negotiated wage restraints, how-

ever, have in some instances meant a reduction in real wages, and careful handling is required to avoid reopening the negotiation of labor contracts which run until late 1979. Productivity gains are considered vitally important in order to keep the increase in unit labor cost low. There is currently strong demand for labor-saving devices and technology that will increase productivity. If cost pressures and prices can be managed, it is possible that the inflation rate can be kept at 8 percent or lower. If so, it will be a big plus for Swedish exports and, consequently, for the Swedish economy in the year ahead.

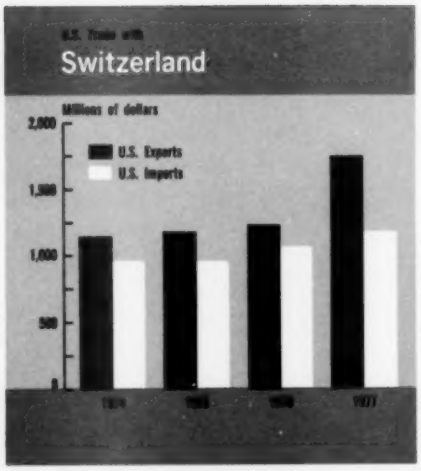
During the past several years, Sweden's exports have been weak. Rapidly rising costs increased the price of Swedish goods making them less competitive in world markets. At the same time, there was a slackening in the demand for Sweden's principal exports—steel, pulp and paper, ships, and metal products. Sweden is taking measures to curb its costs, and to consolidate and modernize some of its major industries in order to regain its competitive position.

Despite its economic difficulties, Sweden continues to be a good market for U.S. exports. In 1977, U.S. exports to Sweden totaled $1.1 billion, a gain of 7 percent over 1976 sales. It is notable that in 1977 the United States was able to increase its share of the Swedish market to 7.2 percent from 6.7 percent in 1976. U.S. sales to Sweden enjoy two favorable factors. Currency exchange rate movements have made U.S. goods more price competitive compared to other European suppliers, and an increased emphasis on the modernization of Sweden's export industries is opening opportunities for the sale of advanced U.S. production machinery, instrumentation and plant equipment.

Industrial production, which has been declining since 1975, will probably start to register some growth in the second half of this year. Inventories in some fields are being worked down, and it is forecast that 1979 will see a 5 or 6 percent rise in industrial output.

For the United States, the product categories that appear to offer the best prospects for exports are data processing equipment, process control instrumentation, communications equipment, printing and graphic arts equipment, electronic components, materials handling equipment and industrial vehicles.

To promote the sale of U.S. data processing equipment and bring new U.S. companies in to the Swedish market, the Commerce Department will sponsor an exhibition at DATAKONTOR-79. This major Swedish trade fair for the computer industry will be held in September 1979 in Stockholm. For information call the Department's Country Specialist for Sweden, 202-377-4601.



SWITZERLAND

Currency Appreciation Hampers Economic Growth

The persistent appreciation of the Swiss franc is likely to slow down Swiss recovery from the past recession. Nevertheless, Swiss industry's exports are expected to remain competitive in foreign markets and imports should continue to rise, spurred by the Swiss industry's need to rationalize and restructure its operations, according to Leo Kuus of the Bureau of Export Development.

Switzerland in 1977 had pulled itself out of the recession and achieved a relatively high growth rate. The GNP increased in real terms by 4.3 percent compared to the 1.3 percent decline in 1976. This increase was above all due to a 12 percent increase of exports by volume which was achieved under relatively stable exchange rate conditions. For 1978, a 2 percent increase of the GNP is expected as the upsurge of the Swiss franc, which started toward the end of 1977, may slow down Swiss exports.

The adverse effects of the appreciation of the Swiss franc on the Swiss economy are partially offset by the virtual absence of inflation, which at the end of April 1978 was about 1.4 percent on an annual basis. The over-valued exchange rate has protected Swiss producers and consumers from high import prices.

The Swiss know that a small country, which is highly dependent on foreign trade, cannot insulate itself effectively from the pressures on its currency during a period of monetary instability and should be prepared for a highly overvalued exchange rate. In order to remain competitive in foreign markets, Swiss industry is forced to cut costs through rationalization and adjust its production to market requirements. Swiss export performance reveals that overall, Swiss industry has confidence in its own strength since the restructuring process is carried out with very little government assistance.

During the first four months of 1978, the United States continued to be Switzerland's fifth largest supplier and had become its third largest customer. U.S. exports to Switzerland continued to increase by value and by volume, amounting to about half a billion dollars or 7.2 percent of the Swiss import market compared to 6.7 percent during the same period a year ago. As of mid-1978 the dollar had depreciated in relation to the Swiss franc by more than 20 percent within a 12-month period and more than 50 percent since the realignment of currencies at the end of 1971. Although the depreciation of the dollar has made U.S. goods in price terms more competitive in the Swiss market, an analysis of past market shares indicates that our exports have not always been responsive to lower prices.

The following product categories are expected to be among those having the best potential for increased exports to Switzerland: computers and peripherals, process control instrumentation, consumer goods, industrial and commercial security and safety equipment, and energy systems.

Commerce is sponsoring the following promotional events in Switzerland: a catalog show of process controls at the ILMAC exhibition in Basle in September; a U.S. exhibition at the largest international nuclear industries fair, NUCLEX, in Basle in October; sample, catalog and video tape recording presentation, "U.S. Footwear Video Boutique," in Zurich in November; and a trade mission of industrial and commercial security and safety equipment in February 1979. The U.S. Embassy in Bern is also planning Fall promotions of American autos and word processing equipment.

The constant appreciation of the Swiss franc has helped Swiss companies obtain production facilities abroad in order to maintain their competitive position and to overcome the stagnating domestic demand. Swiss direct investments abroad are about four times higher than comparable foreign investments in Switzerland. At the end of 1976 the book value of U.S. direct investments in Switzerland amounted to $5.7 billion and Swiss direct investments in the United States to $2.3 billion.

In February 1978 the appreciation of the Swiss franc prompted the Federal Council and the National Bank to take new measures to tighten the inflow of foreign capital. These measures included the extension of the negative interest rate, 10 percent per quarter, which is applied to non-resident Swiss-franc-denominated bank deposits; a ban on all purchases of Swiss securities by non-residents; limitation of non-resident purchases of bonds issued by foreign borrowers in Switzerland; and limitation of the amount of

foreign banknotes a person can bring into Switzerland. The above restrictions on non-residents do not apply to active foreign-owned businesses in Switzerland, as they are considered to be Swiss enterprises.

UNITED KINGDOM

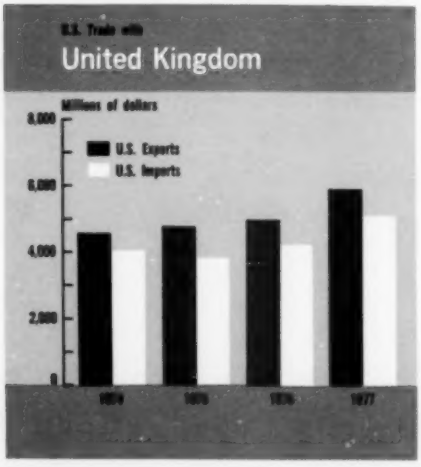
Consumer Spending, Public Investment Fuel New Growth

U.S. suppliers of both producer and consumer goods can benefit from current substantial increases in British consumer spending and scheduled expansion of manufacturing and public sector investment, according to Bureau of Export Development trade specialist Paul A. Norloff. A dramatic fall in the rate of inflation from last year's 16 percent to present levels of 7 to 8 percent has laid the basis for significant economic growth.

According to the National Institute for Economic and Social Research, average earnings in 1978 are expected to be up by 13 percent over last year. After taking account of new tax relief, the impact of inflation and other factors, this leaves an expected increase in consumer expenditure in 1978 of probably 5 percent. Manufacturing invertment, according to recent surveys, appears likely to expand by 12 to 13 percent while a recovery in housing construction and public sector fixed investment of more than 6 percent provides the most significant improvement since 1973. Overall government expenditure, which was essentially flat last year, is scheduled to grow by almost 2 percent across nearly the entire range of programmed expenditure.

Though Gross Domestic Product was flat in 1977 over 1976, 1978 will probably see an expansion of at least 3 percent, as industrial production is expected to rebound with a bigger surge than at any time in the past four years.

Although no formal agreement has existed during the past year since Aug. 1, the Trades Union Congress had tacitly accepted the government's demand that wages not rise during that period by more than 10 percent. The actual increase in wages during that time was probably about 13-14 percent. A new policy will be adopted to influence wage negotiations after Aug. 1 of this year, and most signs seem to indicate a government effort to hold increases below 8 percent—a policy well within reason considering the dramatic reduction of the level of inflation from 16 percent in 1977 to 7-8 percent at present.



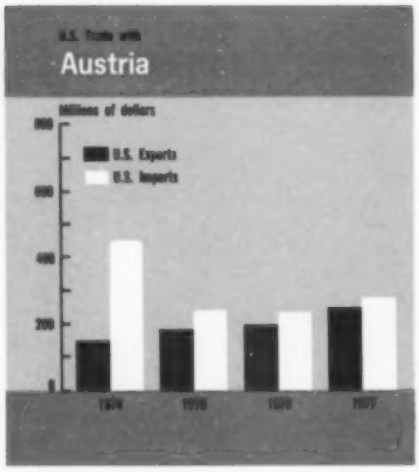
The balance of payments on current account in 1977 turned out to be essentially in balance, following a deficit of slightly more than one billion pounds in 1976. The turnaround was due to a strengthening of the United Kingdom's competitive position in export markets and to a slightly greater increase in non-oil exports over non-oil imports. While the government is forecasting a 1978 current account surplus of less than a billion pounds, a substantial degree of uncertainty exists because the propensity to import during periods of economic expansion usually exceeds the expansion of purchases of domestic goods. Thus, the development of the current account for 1978 will probably not be clear until later in the year.

Unemployment, which ended the year in 1977 at 6 percent, in comparison with a 5.5 percent rate in 1976, has been dropping steadily to a present level of about 5.8 percent. With expansion in industrial production, unfilled vacancies are increasing and severe shortages of skilled labor are becoming a problem. Many observers feel that the basic trend is toward a continuing reduction in unemployment throughout the remainder of the year.

U.S. exports to the United Kingdom in 1977 totaled $5,917 million, an 18.5 percent increase over U.S. exports to the United Kingdom in 1976 of $4,994 million. U.S. imports from the United Kingdom in 1977 totaled $5,141 million, a 20.7 percent rise over the 1976 total of $4,260 million.

U.K. imports from the United States made up 10 percent of total U.K. imports from the world in 1977, up from 9.8 percent of total imports in 1976. U.K. exports to the United States in 1977 made up 9.4 percent of total U.K. exports, a slight drop from the 9.6 percent recorded in 1976. The principal categories of goods imported from the United States were electrical and non-electrical machinery, transport equipment and cereals and cereal products.

The Department of Commerce's Trade Center in London will be utilized primarily for business-sponsored promotions through September 1978. After that date, the Trade Center will be closed and its place taken by an International Marketing Center operating out of the U.S. Embassy in London.



AUSTRIA

Imports Decline, But U.S. Sales Prospects Brighten

Prospects for U.S. sales in 1978 appear quite favorable, especially in the light of the impressive showing in the first quarter of this year, when American exports to Austria rose 8.4 percent, despite an overall decline in Austria's imports. The decline was attributable primarily to measures taken by Vienna at the end of 1977 to stem the tide of imports and cope with huge trade and payments deficits, reports V. Stanoyevitch of the Bureau of Export Development.

Effective at the beginning of this year, Austrian value added tax rate on a number of luxury goods, for example, automobiles, was raised from 18 to 30 percent and bank consumer lending for "luxury" import financing tightened considerably. Other measures to dampen the flood of imports include an import monitoring system for steel and textiles, voluntary restraint agreements with some trading partners and a stricter application of health and quality standards for imported canned and processed foods and vegetables. The depressing effect of those measures upon U.S. sales, however, should be more than offset by exchange rate advantages, with the dollar having depreciated about 11 percent against the schilling in the October 1977 through March 1978 period.

Multibillion dollar trade and payments deficits of 1976 and 1977 are hardly likely to be reduced materially this year. The Austrian economy is in for another year of even slower growth, estimated at about 1½ percent in constant prices, or less than half the growth rate in 1977. The buying surge in late 1977, to beat the luxury tax, is expected to slow down consumer spending, especially in the light of tighter installment credit and rising savings ratio. The Government's hard schilling policy has weathered the losses in monetary re-

serves in the wake of payments deficits, and is largely responsible for a steady decline in the rate of price inflation, from 7.3 percent in 1976 to less than 4 percent in March.

The unemployment rate, one of lowest in Europe, has crept up to about 2.2 percent of the labor force, or 60,00 jobless. There are approximately 180,000 foreign "guest" workers employed in Austria. Wage contract settlements so far this year have resulted in average wage increases of 6½ percent, compared to more than 8 percent in 1977.

Last year, U.S. sales in Austria grew in step with the overall rate of growth in Austria's imports of 14 percent, leaving the U.S. share of the Austrian import market substantially unchanged at 3 percent. Among major U.S. export categories to Austria, impressive gains were made with sales of business machines (up 36 percent), non-electric machinery (34 percent), vehicles (22 percent) and metal, ore and scrap (15 percent). U.S. sales in the first quarter of this year raised our percentage share of the Austrian import market to 3.3 percent.

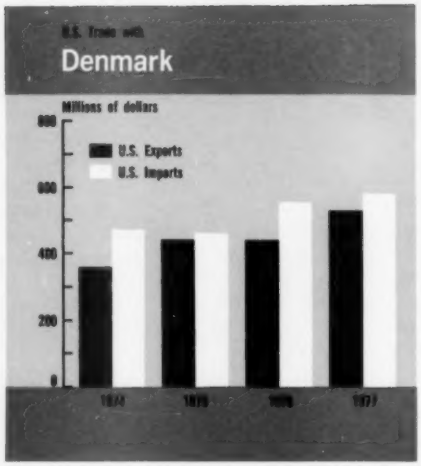
The U.S. Department of Commerce trade promotion program for Austria includes in-store consumer goods promotions, trade missions, seminars, and catalog and video exhibitions.

DENMARK

Economic Measures Begin To Reduce Payments Deficit

More of the same this year is the outlook for the Danish economy, which registered a sluggish 1 percent GNP growth in 1977, notes Philip G. Combs of the Bureau of Export Development. The government's medium-term economic adjustment program aimed at reducing a large payments deficit, excessive inflation and a high rate of unemployment has been reasonably successful. Although overall Danish imports have been declining, U.S. sales to Denmark have previously shown stamina when the Danish market was weak.

Limits on public spending, increased taxes, and wage restraint measures have begun to mitigate the payments deficit, but several years of austerity may be required to achieve equilibrium. The large fiscal deficit in the public sector reflects reduced tax revenues resulting from slow sales, while unemployment, which exceeded 8 percent during the winter, has necessitated rising social benefits. Investment is weak except in the farm sector with somewhat less than the 5 percent 1977 increase in plant investment expected this year. The erratic homebuilding sector of recent years should stabilize at a level somewhat below the earlier official target of 40,000 units per annum. Some reduction in real earnings is expected in 1978. Against this



background of stagnant demand, hopes for expansion center on the export sector.

The government is eager to maintain its incomes policy to preserve or improve its competitive position in foreign trade.

The rate of inflation is 9 percent, about average for European countries, and is not likely to decline much in 1978. With the heavy import component of Danish production and consumption, prices are strongly influenced by developments abroad. Government incomes-restraint measures and reduced demand for labor have contributed to a lower industrial wage rise in 1977, believed to be under 10 percent. Moderation is likely to continue through 1978.

Imports began a decline in 1977 which is expected to continue in 1978. Capital equipment imports, which attained a high level in 1976, have since dropped off and will probably continue to do so in 1978. Although industry is working well below capacity and demand prospects are not encouraging new investment, there may be a boost in imports late in the year prior to the expiration of the 10 percent investment tax credit. Despite limited growth in exports, the trade deficit was reduced to $3 billion and may decline further in 1978.

Recent international monetary and labor cost developments have made U.S. goods more interesting to Danish buyers who were previously attracted mainly by superior U.S. quality. Significant export possibilities exist for U.S. investment goods for agriculture, manufacturing and construction, and for selected meat products. Imports of U.S. EDP equipment rose 40 percent in 1977. Other interesting areas include equipment for business, safety and security, aviation and avionics, electronic industry production, packaging and materials handling, and climate control.

U.S. manufacturers of packaging and printing machinery have an outstanding opportunity to develop sales not only in Denmark but also in Germany, Sweden, Norway, and Finland by exhibiting in the U.S. pavillion at PAK-TEK '78 in Copenhagen, Dec. 5-9.

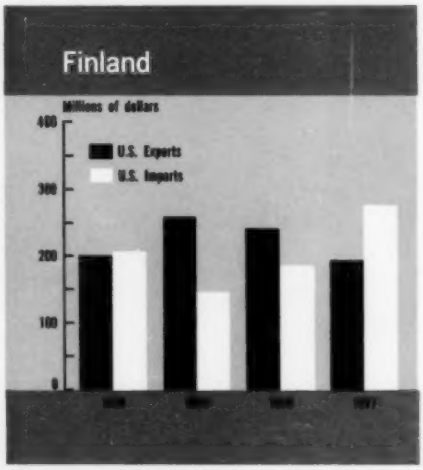
FINLAND

Persistent Stagnation Adversely Affects Imports

U.S. exports to Finland have been adversely affected by the persistent stagnation of the Finnish economy, and no early improvement is foreseen in overall U.S. shipments. Last year, after several years of U.S. export surpluses, there was a sharp drop in U.S. sales to Finland, and concurrently, a significant rise in U.S. imports of Finnish goods, James M. Devlin of the Bureau of Export Development points out.

The value of U.S. exports to Finland in 1978 will probably show an increase but this will be mainly the result of planned purchases of U.S. manufactured commercial aircraft by the Finnish airline. In general, if aircraft sales are excluded, U.S. exports to Finland are not expected to show a gain over the prior year, and the U.S. share of the market might register another decline. In 1977, the U.S. share of total Finnish imports was 4.7 percent, down from the 5.2 percent share the United States had in 1976. Finland's imports from neighboring European countries have been increasing.

The Finnish economy continues to be slack, with high unemployment and overcapacity in key industries. It does not offer a promising market for capital goods, the category in which the United States does best in the Finnish market. In addition, the measures Finland has taken to revitalize its economy and regain a competitive trade position have had a dampening effect on imports. Last year was the first since 1968 in which Finland's foreign trade recorded a surplus of exports over imports. In 1977, Finland's GNP registered a slight decrease in real terms from the previous year. This year's GNP will probably show little or no growth. The measures being taken by the government to bolster the economy and hold down inflation are having some



success, but part of the country's economic difficulty is beyond its direct control as it is the result of the general international economic situation.

Finland's principal industries such as shipbuilding, metals, forest products, and pulp and paper have been depressed because of weak demand from some of its traditional trading partners. Finland, however, is aware of these basic problems and is striving to overcome them. The Finnish mark was devalued 8 percent in February of this year, and increased efforts are being made to expand the sale of Finnish products in some parts of the world that have not generally been important markets for Finland.

Despite the poor economic situation, Finland remains a relatively stable market for a wide range of U.S. exports. When the economy begins to recover and investment picks up, Finland will again offer expanding opportunities for the sale of industrial machinery and equipment. While the impact on U.S. exports probably will not be felt until next year at the earliest, U.S. suppliers should be ready to respond rapidly.

The product categories that appear to present the best prospects for U.S. exports are industrial process controls, communications equipment, electronic systems, subassemblies and components, and industrial production and test equipment.

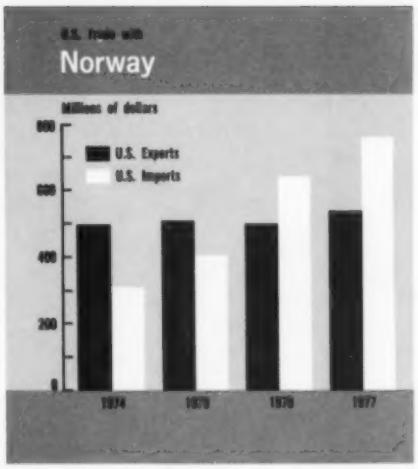
NORWAY

Current Program Calls For Restructuring Industry

Restoration of international competitiveness through slower growth of unit costs in industry and economic restructuring is called for in the program which, together with the national budget, was passed by the Norwegian parliament in early June. The planned rationalization and restructuring of industry is expected to result in a continuing demand for United States capital goods, according to Philip G. Combs of the Bureau of Export Development.

On the wage front, the agreement negotiated in the spring is intended to hold real increases to near zero this year. Industrial wages rose 57 percent between 1974 and 1977. Austerity measures contained in the revised national budget and a long-term program to scale down growth in private consumption from 4 percent per year to less than 1 percent are intended to reduce consumer demand. Success of the program to limit increases in unit costs is closely tied in with the ability of the government to divert future petroleum revenues from domestic consumption to investment.

Real economic growth this year, some two thirds of which will be attributable to the oil sector, should about equal the



4.1 percent growth of 1977 which resulted in a $35.8 billion GNP. Gross investment is expected to decline in 1978 following sharp rises in recent years as growth sectors—offshore petroleum, power production and transportation—cut back on capital outlays. The mid-year reduction of the investment tax from 9 to 5 percent, however, may offset this to some extent.

Strong demand at home and higher priced domestically produced goods led to an 11.3 percent rise in imports to $12.9 billion in 1977. Imports of consumer and capital goods were strong while sales of new cars rose to an all time high. Exports of oil and gas increased marginally to about $1.3 billion in 1977; they are projected to reach $3.8 billion this year. With weak demand abroad for its products and a strong domestic market, Norway wound up with a record $5 billion current account payments deficit which was covered by borrowing abroad. A reduction of the deficit to $3 billion is projected for 1978.

High labor costs, new offshore oil development, pollution control plans, and relatively high planned investment in the manufacturing sector all point to continuing sales opportunities in Norway for U.S. exports despite the uncertain economic outlook. Orders for much of the capital equipment required in connection with the reorganization and rationalization of such industries as electronics and paper production, and the restructuring of the shipbuilding industry, can be obtained by resourceful U.S. suppliers.

North Sea oil field development will be of great importance. Besides the continuing investment needs of the Frigg and Ekofisk Fields, work is now beginning on Valhall/Hod. Building and equipping the Statfjord B complex will be a $1 billion project alone.

Good sales opportunities exist for process control instrumentation, communications equipment, computers and peripheral equipment, business equipment, machine tools, building supplies and equipment, and pollution control equipment.

PORTUGAL

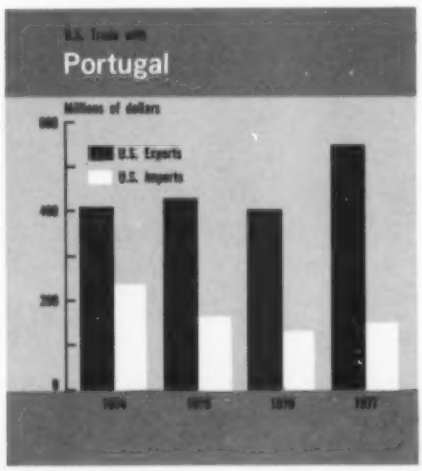
Difficult Economic Period Clouds U.S. Export Outlook

Portugal continues in the midst of a major economic recession which dampens prospects for significant growth in U.S. exports in 1978. The new coalition government of Prime Minister Mario Soares has been implementing an austerity program which could sharply limit the growth of nonagricultural imports, according to Kenneth Nichols of the Bureau of Export Development.

The recent successful completion of negotiations with the International Monetary Fund for a second credit tranche stand-by arrangement of $70 million has cleared the way for an additional drawing of $750 million in credits pledged by some 14 countries, including the United States. As part of its agreement with the IMF, the Portuguese government agreed to implement a series of stabilization measures, including cuts in government expenditures, tightening of credit, easing of price controls and further devaluation of the escudo by 5 percent. The initial devaluation is being followed by monthly 1.2 percent devaluations over the next ten months.

Real GDP growth in 1978 is expected to reach only 3 percent as compared to 5 percent last year. The economy continues to be characterized by low productivity, unemployment, serious trade and payments deficits and a high inflation rate. The consumer price index in the first four months of 1978 rose by an average of 21.5 percent over the same period in 1977.

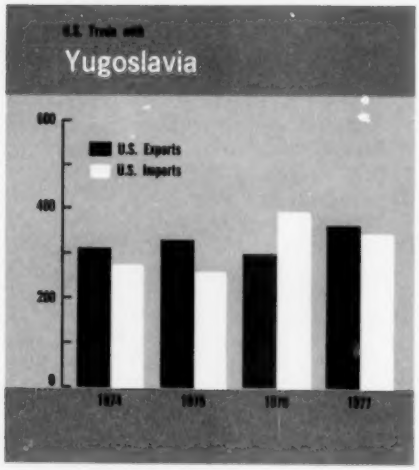
Total Portuguese imports reached $4.5 billion in 1977 as contrasted with only $2 billion in exports, thereby resulting in another large trade deficit. The deficit would have surged even further had the government not taken measures in the final quarter of 1977 to slow the issuance



of import licenses. Increased domestic economic activity, strong consumer demand which domestic production could not satisfy and heavy stockpiling in anticipation of further escudo devaluation and import controls combined to bring imports to a record level.

U.S. exports to Portugal reached a record $551 million in 1977, mainly accounted for by large increases in agricultural commodities, which comprised more than 65 percent of all U.S. sales to Portugal.

The following product categories are considered to have the best sales potential in Portugal: building, construction and mining supplies and equipment, energy systems, metalworking machinery and finishing equipment, food processing and packaging equipment, instruments and equipment for the health care industry, railway equipment (including subway), textile machinery and equipment, and petrochemical projects. In November, the U.S. Department of Commerce will sponsor a mining equipment trade mission to Portugal.



YUGOSLAVIA

More Balanced Trade With Western Countries Desired

Reflecting a record deficit in 1977, Yugoslavia's foreign trade is guided in 1978 to a larger extent than usual by bilateral considerations, notes Leo Kuus of the Bureau of Export Development.

GNP increased last year in real terms by 6 percent, which corresponds to the rate projected in the 1976-80 Five-Year Plan. In 1978, a lower rate may obtain since the 1977 current account deficit, the largest ever, may compel the country to subordinate the growth objective to balance of payments constraint.

All Yugoslav enterprises are affected by the new laws which have been adopted to conform with the 1974 Constitution. At this stage, their effect on the Yugoslav economy and the ability to solve such basic problems as persistent inflation, inability to develop exports to the Western countries, or insufficient capital accumulation, is still unclear. The willingness of foreign banks to continue to extend credits to Yugoslavia indicates to the Yugoslav business community that these banks are retaining their confidence in the country's economy.

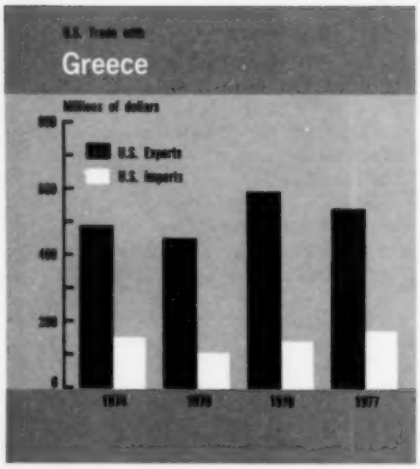
Yugoslavia's policy of maintaining stable exchange rates despite double-digit inflation has encouraged foreign imports, but has made Yugoslav exports less competitive in foreign markets. Yugoslavia has tried to reduce the resulting trade deficit by linking imports to exports through countertrade requirements and by transferring the responsibility for achieving balance of payments equilibrium to the constituent republics and autonomous provinces.

Yugoslavia's exports in 1978 are scheduled to increase by 6 percent, while imports should be held at the 1977 level. During the first four months of 1978 Yugoslav exports and imports were at the same level as a year ago. At the same time, U.S. imports from Yugoslavia showed a slight increase, while exports remained at the same level. Consequently, the U.S. share of the Yugoslav market remained at 6 percent.

Capital goods such as metal processing equipment, machine tools, mining equipment, power generating equipment, computers, and equipment for the chemical industry offer the best prospects in Yugoslavia.

The United States is participating at the Zagreb Fall Fair in September with individual company exhibits, video tape recording presentations of machine tools and packaging machinery, and with a thematic exhibition showing industrial and social application of mini-computers. Furthermore, the United States will be represented at the International Fair of Chemical Industries in May 1979 in Belgrade with a catalog show of process controls. In addition, several technical sales seminars are scheduled to be held in Yugoslavia, including a mining equipment seminar trade mission in November of this year.

Enactment of the new joint venture law this April may signify the beginning of a new and more favorable Yugoslav attitude toward foreign investment. The law has broadened the scope of activities open to joint ventures, has eliminated requirements on the composition of the foreign partner's equity, and made concessions on the transfer of profits. On the other hand, the law has set certain limits to the compensation paid to the domestic and foreign partners, which were not included in the previous law.



GREECE

U.S. Exports Seen Headed For Another Good Year

U.S. exports to Greece amounted to $242 million through May of this year, giving rise to the prospect that the 1977 total of $539 million will be surpassed. The U.S. market share continues to slip, however, down from 8.4 percent in 1976 to 7 percent in 1977, Ann Corro of the Bureau of Export Development points out.

The Greek Government's economic policies continue to steer Greece along a moderate growth path. Real GNP growth decelerated slightly in 1977 to 3.9 percent, or $26.9 billion; but with an expected upturn in industrial production, real growth should reach 4-5 percent in 1978. However, one area of lingering concern is Greece's fifth straight year of double-digit inflation, currently over 12 percent. In an effort to combat this inflation and stimulate productive investment, new fiscal and monetary measures have been announced.

On the trade side, Greek imports reached $6.4 billion in 1977, a 15.5 percent increase over the previous year. Exports increased by 13 percent to $2.5 billion, for an overall trade deficit of $3.9 billion. A strong performance in invisible earnings, such as shipping receipts, emigrant and worker remittances, and tourism, and capital inflows, such as deposits in foreign exchange, offset much of the deficit. Official borrowing was kept to $478 million.

Earliest possible accession to the EEC is a government top-priority objective. Full membership is expected by 1980-81. In preparation for accession, the Greek Government is aware of the need for changes in the economy if Greece is to compete effectively in the Community. Industrial rationalization and increased efficiency will be required. Heavy investment in labor-saving equipment, automated plants, computer technology and special emphasis in improving managerial/mar-

keting skills must be encouraged. Sales opportunities for U.S. high technology equipment, therefore, appear bright.

Several new investment laws will be of interest to U.S. business. Revised investment incentives have been drafted by the government. Although not yet enacted by Parliament, the new investment package includes some former incentives such as tax concessions, export rebates and credit and financing advantages. New incentives in the form of grants and other benefits to encourage regional development will be implemented, affecting a broad range of activities in industry, agriculture, exports, tourism and encouragement to small and medium-sized enterprises. The incentive package also reflects growing Greek attention to environmental protection, energy conservation and industrial research.

Law 468/76, enacted in November 1976, implements Greece's new oil exploration and development policy. Subject to still-to-be-signed Presidential decrees, it sets forth model profit-sharing and lease contracts enabling the government to negotiate oil exploration and development agreements with foreign firms. Contracts will be awarded through international tenders or by invitation to selected firms.

Apart from U.S. export opportunities opening up as a result of Greece's entry as a full EEC partner, other sales prospects involve equipment needs for the development and expansion of mineral processing, for reducing Greece's dependence on imported oil in the energy field, and aircraft and telecommunications equipment. IBRD projects in irrigation, education and sewage treatment offer promising sales potential. Investment possibilities may be found in major projects planned by the state-owned Hellenic Industrial and Mining Corp.

Since the Lebanese upheaval of 1975, Greece's role as a regional trade center for the Middle East has grown. Over 200 U.S. firms have established offices in Greece, taking advantage of Greek Law 89, which offers favorable tax and duty exemptions to foreign firms engaged in commercial activities outside of Greece. Other factors continuing to attract U.S. firms are a well-developed business infrastructure — excellent telephone and telex service, air connections, office space, housing — its strategic location and a stable political climate. A Regional Trade Development Office, funded by the U.S. Government and located in the American Embassy, assists U.S. firms in their regional commercial activities.

The U.S. Department of Commerce has an active trade promotion program in Greece. Upcoming events in 1978 include: Pollution control equipment group, October; industry equipment catalog exhibition, November; and a textile machinery trade mission, December.

TURKEY

Downturn In U.S. Exports Expected In Short Run

Through five months of 1978, U.S. exports to Turkey amounted to $100 million, foreshadowing a sizable falloff from the previous year's total figure of $424 million. Because of Turkey's continuing import financing problems, a downturn in U.S. exports for the entire year is likely, reports Ann Corro of the Bureau of Export Development.

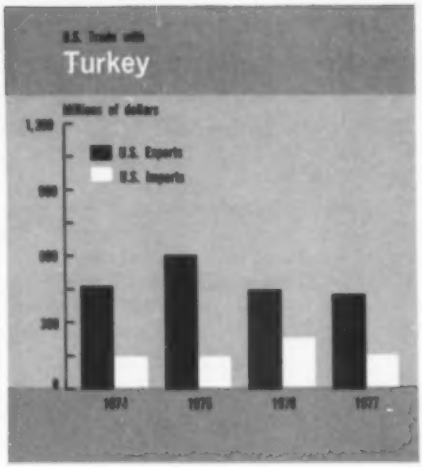
Despite acute foreign exchange shortages and extremely high inflation, Turkey managed to achieve a real GNP growth rate of 4 percent in 1977, or $46 billion, down from an average annual growth rate of 7 percent in the previous four years. Although industrial production increased by 7 percent last year, many industrial sectors began experiencing shortages of energy and essential imports, resulting in production bottlenecks by year's end. It is estimated that most industrial firms are now operating at about half of capacity.

Turkey's foreign trade deficit widened in 1977. Total exports fell by 11 percent to $1.8 billion, chiefly because of falloffs in tobacco and raw cotton. Meanwhile, imports rose by 13 percent to $5.8 billion, resulting in a $4 billion trade deficit. Partly offset by net invisibles and capital inflows, the overall balance of payments deficit totaled $2.7 billion.

The 1978 import regime has targeted exports to increase 39 percent to $2.5 billion, while imports will be reduced to $5 billion. The Turkish trade performance in the first five months of 1978 was mildly disappointing. Exports were up only 5.7 percent compared to the same period a year ago, or $802 million, while imports declined by 23 percent, to $1,843 million.

As previously mentioned, Turkey's economic picture is overshadowed by its critical balance of payments problems with an accompanying burden of financing short-term debt obligations. During most of 1977 and into 1978, foreign exchange transfers were limited to priority imports—crude oil, chemical fertilizers, pharmaceuticals and defense equipment. After even an interruption in foreign exchange transfers for some priority imports, priority transfers have been resumed with the receipt of the first standby IMF credit drawing. Transfers for imports of other raw materials for industry needs remain restricted. Foreign exchange transfer applications pending at the Central Bank for these and other imports reportedly exceed $2 billion.

A recently concluded agreement with the IMF for $450 million in standby credits triggered the commencement of a series of consultations in various forums, such as the OECD Consortium in Turkey, a consortium of major banks, the World Bank,



and brought about bilateral credits, aimed at setting up a debt rescheduling program, providing fresh infusions of import financing loans and additional project credits to Turkey. The initial success of these consultations forms the basis for cautious optimism that various channels of financial assistance will continue to be found to ease Turkey's critical external financing obligations.

The new Turkish Government promptly instituted a devaluation of 23 percent and began to address long-term economic problems by formulating the outlines of an economic stabilization problem. A deflationary program has been introduced which includes new tax proposals to shift the burden to higher income levels as well as to increase revenues; restrictive monetary policies to reduce domestic demand, increase domestic savings and direct available foreign exchange toward export earning sectors; a deflationary budget; and some efforts at price controls, especially for goods and services produced by State economic enterprises.

U.S. exports to Turkey are chiefly related to development projects. The likelihood of undertaking new projects in the immediate future is not promising. However, as debt relief arrangements are finalized, there will undoubtedly be efforts to complete projects that were not finished because of funding difficulties or shortages of imported components. Opportunities for U.S. sales in construction equipment and machinery, and equipment for power generating installations, both thermal and hydroelectric, are particularly good.

Demand for imports will continue to be strong in areas where Turkey is not self-sufficient. For example, coal, both steam and coking, and certain iron and steel products. Export-related inputs such as chemical fertilizers and similar products will be accorded primary consideration for foreign exchange allocation.

Nonetheless, American exporters should bear in mind that financing remains a serious problem.

COMMUNIST ECONOMIES AT MIDPOINT OF FIVE-YEAR DEVELOPMENT PLANS

Countries Seek Growth, More Balanced Trade

Efficiency and quality keynote the 1976-80 plans of the European communist economies. These guidelines are receiving increased emphasis as Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania, and the USSR enter the second half of their five-year plan period. Equipment and technology which can help meet these goals should continue to be in demand despite the greater import cautiousness now evident, Susanne Lotarski of the Bureau of East-West Trade points out.

Behind the growth targets and investment policies of the six countries is a drive for technological modernization and increased productivity in both industry and agriculture. More rational use of natural, labor, and capital resources is of high priority. Improved quality of products and a better lot for the consumer also rank high in the hierarchy of declared goals. Economic performance will have to improve during the remaining two-and-a-half years of the plan, however, if the slated goals are to be met.

A review of key economic indicators shows important shortfalls in each of the economies. Growth rates, as measured by national income, are below or just at plan level, even though the targets are generally lower than those of earlier periods. While poor agricultural yields have contributed to sluggish overall economic performance, industrial production also has lagged in key sectors. Lags at this point in the plan cycle, however, are not unusual, and strenuous efforts to catch up can be expected.

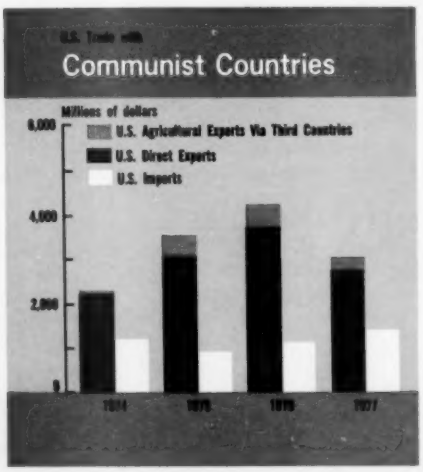
Control and direction of investments is receiving prominent attention in each of the countries. Fighting tendencies toward cost over-runs, delayed completion, and over-dispersal of investments, planners are giving priority through 1980 to completion of ongoing investment projects and modernization of existing plant rather than initiation of new construction. The major beneficiaries of investment funds are those sectors believed to stimulate technological advance — the electronics, metallurgical, machine engineering, and chemical and petrochemical sectors. Consumer-oriented industries, especially food-processing, also are receiving increased capital resources, as are projects thought to yield quick export growth.

A tight supply situation spurs the drive for more efficient use of all factors of production. The increased demand for raw materials and their rising cost are forcing these countries to pay greater attention to conservation of resources, especially those which must be imported. Energy conservation is of particular concern. Labor shortages, either absolute or in selected specialties, have begun to appear in most of the countries, and give added importance to improved labor productivity. Investment capital, too, is proving inadequate to meet the desired expansion and must be more rationally allocated. These considerations should figure prominently in the sales strategy of American exporters.

The shift from an extensive to an intensive development strategy, from quantity to quality, is having an impact on both producers and consumers. In a number of countries new economic management procedures are being introduced which seek to create incentives for efficiency in production. Consumers, in turn, are facing higher prices for the goods and services they purchase.

As a key element in the development plans, foreign trade performance is being carefully watched. The chief concern to the end of the plan period will be achieving a more balanced trade without slowing economic growth. During the first half of the five-year plan period, trade deficits were incurred not only with the United States, but also other Western countries. Adverse terms of trade, sluggish export growth, and continued strong import demand contributed to an increase in hard currency debt, which for the area as a whole was estimated at $47 billion at the end of 1977.

All except Hungary and Romania made significant progress in 1977 in cutting hard currency trade deficits, and seem to be trimming them further in 1978. Only Czechoslovakia managed to do so by expanding exports. Reduced imports accounted for the better trade balance of the USSR, Poland, and the GDR.



The foreign trade plans of all the countries call for tight control on imports and vigorous export expansion efforts through 1980. A need for imported grains, industrial feedstocks and components will place a floor on the extent to which imports can be cut or directed. Discretionary import funds will be directed toward key sectors in which 1976 and 1977 targets were not met and areas most promising in resource conservation.

Compensation arrangements loom ever more important in the commercial decisions of those countries as they seek to conserve hard currency resources. To assist American companies in preparing for such transactions, the Bureau of East-West Trade has prepared a special publication, "East-West Countertrade Practices: An Introductory Guide for Business," which shortly will be available from the Commerce Department.

USSR

Trade Climate Is Factor At Five-Year Plan Midpoint

For the first five months of 1978, U.S. exports to the USSR totaled about $1.3 billion, compared to $944 million for the same period last year. Total U.S.-Soviet trade turnover was just under $1.5 billion, up from approximately $1 billion in January-May 1977. Alice L. Clark of the Bureau of East-West Trade observes that barring any slowdown due to the deteriorating climate in U.S.-Soviet relations, U.S. exports to the Soviet Union for 1978 should come to about $2 billion including grain exports, which this year may reach about 80 percent of U.S. exports to the USSR.

It is difficult to estimate at this time the impact of the factor which may limit development of USSR trade relations: the recent cooling in the political relationship between the two countries. Soviet actions against American businessmen and reporters, harsh reprisals against dissidents, including trials and severe sentences, as well as Soviet-Cuban actions in Africa, have severely chilled the attitudes of the American public, the Administration and Congress toward aggressive pursuit of expanded trade.

To signal its displeasure with recent Soviet actions, the Administration has banned the sale of a computer to the Soviet news agency, TASS, and has put licensing controls on exports of equipment and technology used in the exploration for, or production of, oil and natural gas in the USSR.

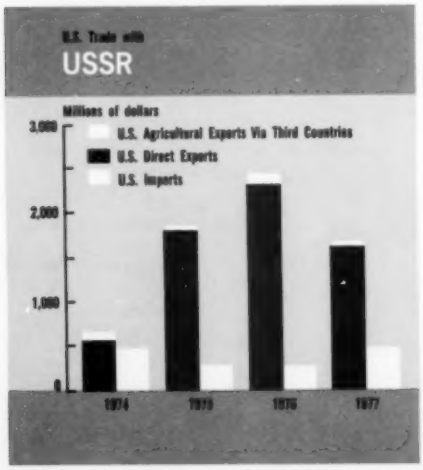
This year marks the midpoint of the Tenth Five-Year Plan (1976-80), officially dubbed the "Plan of Efficiency and Qual-

ity." Soviet officials by now are seriously concerned that the optimistic title may prove inaccurate and that even quantitative plan goals will not be met by 1980 despite the modest growth targets. This concern on the part of the leadership is indicated clearly by an open letter addressed to the Soviet people in January urging them to redouble their efforts to fulfill the plan.

In 1977 and the first five months of 1978, output lagged in several key industrial areas, including energy, metallurgy, and chemicals. The planned growth rate for 1978 industrial production is still below the average necessary to meet the 1980 target. National income grew only 5 and 3.5 percent, respectively, during the first two years of the plan, falling short of targets. It is expected to grow 4 percent in 1978. The same trend holds true for capital investment, where the planned growth rate is continuing to decline, and for industrial labor productivity.

Performance of the volatile agricultural sector is crucial to the fulfillment of the current plan. During 1976 and 1977, Soviet agriculture missed gross production targets by a substantial margin. In the event of poor harvests, plan goals may be jeopardized and the Soviet Union may again be forced to divert scarce hard currency reserves originally earmarked for purchases of machinery and equipment to grain purchases.

The Soviets have had little difficulty in fulfilling their foreign trade plan. Between 1976 and 1980, Soviet foreign trade turnover is to increase by 30-35 percent. Due in part to world price inflation, it increased by 12 percent in 1977 alone. The 1978 plan calls for an increase of 10 percent, including a growth in trade with Western countries. Soviet planners are increasingly favoring use of compensation arrangements, under which the Soviets pay for imported machinery and equipment with Soviet products, in many cases output from Western-equipped plants. U.S. firms willing to consider this and other more unorthodox methods of payment will thus stand a better chance of developing trade ties with the USSR.



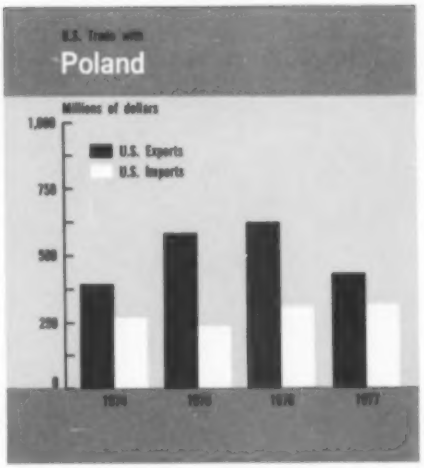
In planning their imports from the West for the remainder of the current Five-Year Plan, the Soviets are expected as in the past to emphasize improved technology, modernization of industry, and equipment that will permit savings of labor, natural resources and fuel. Major purchases are expected to be in areas where 1977 targets were not met.

Thus there should be opportunities for sales of testing and regulating instruments, lifting and loading equipment, computers, aviation equipment, and oil and gas exploration, production, and transport equipment. Already in 1978 U.S. firms have signed substantial contracts for steam generators, desalinization equipment and compressors for use in oil recovery, gas well equipment, workover rigs, and a drill bit plant. U.S. firms are members of several Western consortia currently negotiating the first stage of a large project for sale of gas lift equipment for use in Western Siberia.

The chemical industry also offers substantial opportunities to U.S. firms. The Soviet leadership is concerned over the failure of the chemical industry to meet targets in most key areas in 1977. Special emphasis is being placed on agricultural chemicals to boost farm output, and on the construction of a large petrochemical complex at Tomsk and a synthetic rubber complex at Tobolsk where work is already under way and will accelerate during the next Five-Year Plan (1981-85). In June 1978 Leonid Kostandov, Minister of the Chemical Industry, spent two weeks in the United States exploring opportunities for increased cooperation between the U.S. and Soviet chemical industries. He expressed interest in expanded use of compensation arrangements in U.S.-Soviet chemicals trade, particularly in pesticides and agricultural chemicals.

Another area expected to provide opportunities for U.S. exporters is tourism, especially the influx of an estimated quarter-million visitors for the 1980 Summer Olympic Games. A number of major athletic facilities will be constructed and many others will be renovated. Electronic information and recording equipment will have to be imported, and additional hotels, restaurants and other facilities will be required to serve the visitors.

During the second half of 1978 the Commerce Department is sponsoring U.S. participation in two Soviet-organized international exhibits and four seminar/exhibits at the U.S. Commercial Office in Moscow. The international exhibitions, with a total participation of about 70 American firms, will feature agricultural equipment and scientific instruments. The programs at the Commercial Office will feature plastics production, food processing, and ferrous metallurgy equipment.



POLAND

Tempered Economic Growth Curbs Import Demand

The strains of rapid modernization on the country's infrastructure, as well as continuing trade deficits and rising foreign debt, have forced Poland to temper its growth and modernization policies and to impose a program of import restraint, reports Richard Lesczynski of the Bureau of East-West Trade. Occurring midway through the revised 1976-80 Five-Year Plan, the new policy has necessitated further downward revisions of FYP targets. Expected to be maintained through the remainder of the period ending in 1980, the belt-tightening program will have a dampening effect on foreign business activity in Poland for at least the next two years.

The Government's curbs on economic growth are reflected in national income which grew by only 5.6 percent in 1977 and is projected to increase by a similar rate in 1978. This compares with a rate of growth of 7.5 percent in 1976, and the 7 percent average annual growth called for in the 1976-80 plan.

Total investment spending rose only 2.5 percent in 1977. This represents a significant drop from the 20 percent average annual increases in investment spending during 1973-75. No increase is planned for 1978. Investment priorities have also been reshuffled. For the remainder of the plan period resources will be directed toward the completion of ongoing projects, increasing housing construction, improving agricultural output, and developing the raw materials and energy sectors.

Industrial production is to expand by 6.8 percent in 1978, down from the 8.6 percent growth in output which exceeded the plan by 2 percent last year. Emphasis will be on increased production of consumer goods and export-oriented items.

Export growth lagged behind the plan's goal for a 15 percent annual increase. In

1976 and 1977 total exports grew 7.5 percent and 11.4 percent respectively. In 1978, exports are set to grow by a more realistic 9.2 percent. Polish markets in the West remain sluggish due to continued depressed demand for traditional Polish exports. In addition, Polish exporters still encounter difficulties in competing in Western markets for capital goods.

The government's efforts to reduce Poland's hard currency expenditures brought impressive results in 1977. Imports from non-CMEA countries fell 4.5 percent. Since the prices of Poland's imports increased by an average of 5.4 percent in 1977, the volume of imports actually fell by about 10 percent. Machinery and equipment imports will continue to decline to allow continued purchases of raw materials, semi-processed goods, foodstuffs, grain, and feedstocks for fertilizer production. The Soviet Union is Poland's chief supplier of most of these products, except grain.

Export growth together with reduced purchases helped trim Poland's hard currency trade deficit from $2.9 billion in 1976 to $2.3 billion in 1977. With hard currency debt at the end of 1977 estimated at $13 billion and repayment of earlier medium-term loans and more recent short-term borrowings coming due imminently, Poland's planners are unwilling to approve large new investments requiring foreign imports and credits. Poland's continued determination to correct its trade balance and to sustain stringent control over import growth for the remainder of the plan period is expected to bolster confidence in the country's ability to overcome its present difficulties.

Although U.S.-Polish trade will not expand as rapidly as it had during recent years, business opportunities continue to exist. The five-year plan emphasizes the expansion of the food sector and the construction of residential housing. Polish officials have indicated that they are seeking U.S. suppliers of equipment for the processing, canning and packaging of fruits, vegetables and beverages, and for the production of building materials. Particular emphasis has been placed by the Poles on development of the energy sector. Opportunities also exist for the sale of equipment and processes for improving production efficiency, particularly through conservation of energy and materials.

Poland's investment law, published in 1976, opens yet another avenue for new business development. The 1976 law allows wholly owned foreign investments in hotels, restaurants, retail trade and other service enterprises. Polish officials have indicated their willingness to consider also industrial ventures if they can generate significant levels of hard currency exports.

To summarize, Poland's austerity measures appear to have been successful in achieving a better balance of trade with the West. Continued controlled growth, restraint in investment, and several successful harvests may set the country on the path to another expansionary period. In the interim, U.S. companies should pursue available opportunities and continue to develop and maintain contacts. Persistence now will pay off when the tide turns.

ROMANIA

Growth Continuing; Current Focus On Heavy Industry

As it nears the half-way point of its 1976-80 Five-Year Plan, the Socialist Republic of Romania continues its drive for rapid industrial development. Despite several natural disasters—floods, drought, and an earthquake—during this decade, Romania has maintained an average annual industrial growth rate of approximately 11-12 percent. National income in 1977 was $36 billion, up 8.6 percent over the 1976 figure, according to Peter Hanley of the Bureau of East-West Trade.

The focus of Romania's growth has been heavy industry, particularly in the machine building and chemical/petrochemical sectors. Agriculture, while still important in this once predominantly agrarian country, has experienced erratic growth; in 1977, production actually dropped 1.3 percent.

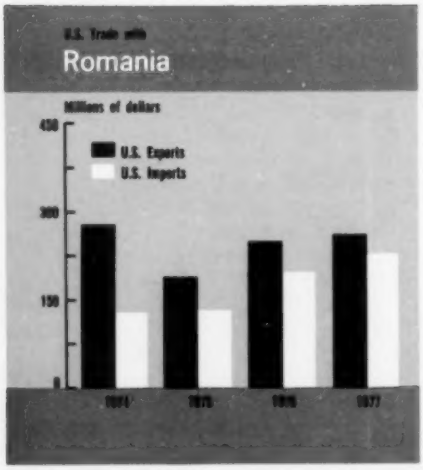
Foreign trade plays an important role in the current plan with the machine building and chemical sectors expected to account for more than half the growth over the 1971-75 Plan. Trade turnover in 1977 increased 14.8 percent, but did not measure up to the 15.5 percent target. In view of the Plan underachievement in previous years, the 19.1 percent increase slated for 1978 may be too ambitious.

It is anticipated that Romanian demand for U.S. agricultural products, coal, and industrial goods will continue to rise. Romania is particularly interested in electronic and computer equipment and would also like to expand the number of cooperation projects and joint ventures it undertakes with U.S. companies.

The overall performance of the Romanian economy has been impressive considering the natural disasters of the Seventies. In 1977, industrial production jumped 12.5 percent, exceeding the 10.5 percent anticipated. Workers' productivity also was up 9.8 percent and .6 percent over the Plan target.

Notwithstanding Romania's noteworthy economic development, Romania's leadership realizes that continued rapid industrial growth will intensify demands for energy and raw materials. In addition, Romania must improve economic efficiency to further expand production and remove developing bottlenecks.

In early 1978, the government criticized material waste and poor labor discipline



and took bold steps to strengthen the economy. Numerous personnel changes were made in the areas of foreign trade, planning, industrial construction and finance. New economic measures were adopted to improve efficiency, including increased worker participation in management of the state enterprises, establishment of self-financing enterprises and a system of rewards and penalties for workers based on both the quality and the quantity of output.

If the 1976-80 Plan is to be fulfilled, 1978 performance must be excellent. The recent reforms indicate the government's strong desire to see the objectives met. Romania must have a good year in agriculture while maintaining industrial growth. The search for new sources and forms of energy must remain a high priority matter for Romania.

BULGARIA

Trade Opportunities Persist Despite Economic Slowdown

Bulgaria's economic showing during the second year (1977) of the current Five-Year Plan was not strong, and the goals for this year, and most likely for the remainder of the five-year period, subsequently have been reduced to more attainable levels. Nevertheless, basic development priorities will remain intact, Michael J. Hegedus of the Bureau of East-West Trade reports. Heavy industry again is to receive the strongest emphasis, particularly in the machine building, electronics, electrical equipment, and chemical production sectors. Next in priority will be efforts to boost agricultural production.

Although falling short of the planned growth rate of 8.2 percent in national income, Bulgaria's 6.3 percent increase in 1977 was respectable and compared favorably with the other Eastern European countries. Part of the slowdown may have been due to the poor performance in 1977 of

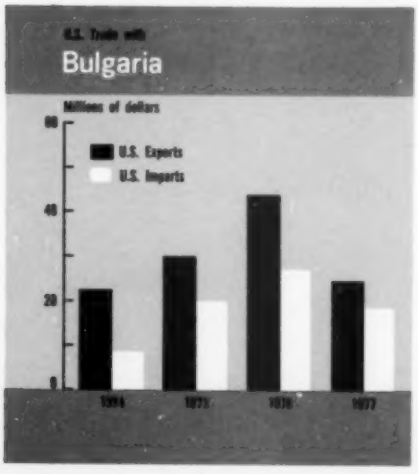
Bulgarian agriculture which suffered from several natural calamities during key points in its planting and harvesting seasons. Industrial growth also slowed to 6.8 percent from the previous year's level of 8 percent and was well below the 9.2 percent projection. Light industry, retail sales, and construction also fell short of the ambitious goals set for 1977.

U.S.-Bulgarian trade declined substantially from $70.3 million total trade in 1976, to $41.7 million in 1977, largely due to the drop in U.S. exports of grain and U.S. imports of tobacco. Nevertheless, there are indications that trade is growing in nonagricultural areas and that in 1978, it its slowly regaining lost ground.

Bulgaria's continuing hard currency deficit with the industrialized West and its inability to generate sufficient hard currency earnings is having a serious effect on the level of trade. In its efforts to counteract the hard currency shortage, Bulgaria is emphasizing countertrade as a method of payment. Nevertheless, there are some real possibilities for a moderate growth in trade and for improved business relations between our two countries. Areas in which Bulgaria has expressed most interest in U.S. equipment and technology include metallurgy, construction, and agriculture and food processing.

Recent inquiries by top Bulgarian industrial officials also may signal important new export opportunities for U.S. companies. The Bulgarian Minister of Metallurgy and Mineral Resources Stamen Stamenov called on U.S. Ambassador to Bulgaria Raymond Garthoff this past May to request specific information on American industrial equipment and technology in the areas of ferrous and non-ferrous metallurgy, oil and gas geology, and seismic exploration. The Bulgarians, bolstered by potential Western bank credits, are interested in immediately pursuing contacts with U.S. firms in order to upgrade their heavy industry sector. (For further details see *Commerce America*, June 5.)

More business opportunities probably will surface as a result of the upcoming meeting of the Bulgarian-U.S. Economic Council, a body established by the United States and Bulgarian Chambers of Commerce. The meeting this year is to be held in Sofia immediately preceding the Plovdiv International Trade Fair, Sept. 3-10. At this year's Plovdiv Fair the United States again will stage a full-scale exhibition in general industrial and agricultural equipment. In the next several months the U.S. Government also will sponsor technical sales seminars in Bulgaria covering meat and dairy processing equipment, sewing and garment production equipment, and metallurgical process equipment.



CHINA

New Growth Targets Capture World Attention

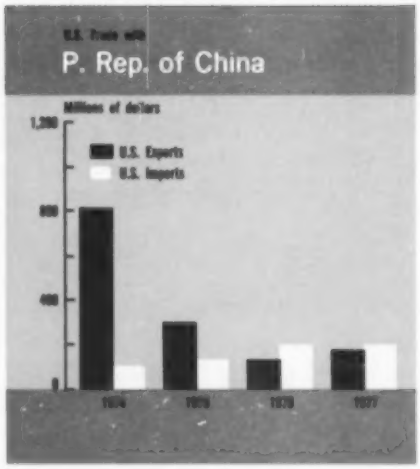
U.S. exports to China in 1978 may surpass $400 million, while imports appear destined to reach a new high of some $300 million, yielding a two-way trade of more than $700 million.

China's successful recovery from its 1974-76 recession and emplacement of rational economic policies and plans will make the country increasingly important in the world economy, according to John Phipps of the Bureau of East-West Trade.

In a comprehensive review of China's public policy framework for the new post-Mao era delivered in February, Chairman Hua for the first time divulged specific economic targets whose ambitiousness has captured the world's attention. In the current Ten-Year Plan (1976-85), China intends to more than double steel output to 60 million tons, to produce 400 million tons of grain, and to maintain annual growth rates for industry and agriculture of 10 and 4 to 5 percent, respectively.

To achieve these goals, China plans to mechanize 85 percent of agricultural operations and to complete 120 major projects, including ten new oil and gas fields, 10 iron and steel complexes, 30 power stations, six new trunk rail lines, five key harbors, eight coal mines, and nine nonferrous metal complexes. Production figures for the first half of 1978—industrial production up 24 percent over the first half of 1977; steel, coal and oil up by 67, 19 and 11 percent, respectively—indicate that China's economy has gathered momentum in moving toward these goals.

A new aggressive Chinese approach to foreign trade is generating significant opportunities for the world's business community. Chairman Hua has called for "a big increase in foreign trade," and China has adopted a number of policy changes to foster an increase. Of interest to exporters is the willingness now to discuss compensation arrangements, to import foreign materials for processing to desired specifications and reexport, and to consider



more flexible credit arrangements. The Sino-Japanese trade agreement signed in February calling for a $20 billion exchange of Chinese coal and oil for Japanese capital equipment is an outstanding example of the new trade policy in operation. Another is the beginning early this year of a new wave of complete plant purchases. According to some estimates, China has already committed itself to purchase $5 billion worth of capital equipment and may purchase another $15 billion before the end of 1985.

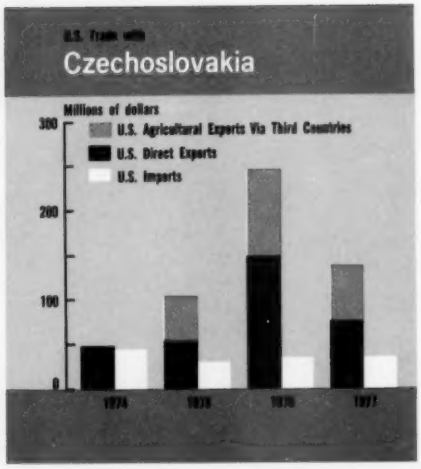
The United States will participate actively in China's stepped up import drive. In addition to large agricultural transactions, sales of off-shore oil rigs have already taken place; and discussions have been held in Peking on a wide variety of high technology items. By mid-year, 30 American technical delegations had visited China and a like number of Chinese delegations had visited the United States to exchange views in such fields as oil production and refining equipment, mining and beneficiating equipment, computers and scientific instruments, transportation equipment, and power generation equipment. Some sales have already resulted from this growing exchange, and China has for the first time expressed an interest in purchasing engineering know-how from some American firms.

CZECHOSLOVAKIA

Economic Malaise Signals Some Trade Opportunities

Although certain economic indicators registered gains over the previous year's growth rates, Czechoslovakia's economy continued to experience slow growth in 1977. Midway through the sixth Five-Year Plan period, ending in 1980, it appears that the targets set by the plan may not be met, Christine Lucyk of the Bureau of East-West Trade reports.

For the remainder of the five-year pe-



riod, significant official efforts will be directed toward ending the economic malaise that has resulted from low productivity, energy and material waste, misallocation of resources, and aging industrial plant.

National income increased 4.5 percent last year over the 1976 level, and overall industrial output rose 5.7 percent. The 1977 growth rates compare favorably with last year's figures of 4 and 5.6 percent, respectively, but fall well below plan targets. Capital investment increased about 5 percent, at roughly the 1976 rate. The results in key industries were mixed. Plastics output, at 26.9 percent, grew most rapidly, reflecting the heavy emphasis which the Sixth Plan places on boosting investment and export capacity in the chemical industry. Electricity, steel, cement and the vital metallurgy sector grew at about the same rate as last year. Auto production actually declined by 11.2 percent.

After two successive negative growth years, agricultural production rose 7.9 percent. The turnaround in agriculture was particularly encouraging, since this sector has placed a strain on other sectors of the economy in recent years.

Erosion of Czechoslovakia's export markets, however, is of great concern, as foreign trade accounts for almost one-third of Czechoslovakia's national income. The increasing difficulties which Czechoslovak exporters face in competing in world markets were reflected in the country's overall trade deficit.

Czechoslovakia's hard currency trade deficit with Western countries continued to rise in 1977, as export performance lagged behind plan targets. Exports to the West rose 16.5 percent, imports by 10.7 percent. Exports in 1977 to the communist countries increased more slowly, growing by 8.8 percent, while imports expanded by 14.2 percent. Czechoslovakia is concerned about balancing its CMEA trade because prices of oil and other imports are expected to continue to increase faster than prices of Czechoslovak exports.

U.S. exports to Czechoslovakia fell substantially, dropping almost 50 percent from $148.7 million in 1976 to $73.9 million in 1977. This reflects primarily a 56 percent reduction in imports of U.S. agricultural products facilitated by recovery from the 1976 drought. Czechoslovak exports remained almost static at $36.6 million.

There are indications that Czechoslovakia will attempt to tackle some of the underlying economic problems which have in recent years crippled its international competiveness and stifled its growth.

Recently the Czechoslovak Government inaugurated an experiment in reform of the middle level of management to improve the profitability, output quality, and management of 150 participating local enterprises. Annual quotas will be deemphasized in favor of new norms stressing profitability, quality, energy consumption, and innovation. Production of less competitive items will be phased out to free resources for production of those products in which Czechoslovakia has a competitive advantage.

Products and processes which can contribute to the solution of Czechoslovakia's major economic problems will provide good prospects for U.S. exporters. High technology items such as electronic data processing equipment, process control instrumentation, food processing and packaging, industrial electronics, and modern equipment for the chemical industry will be given top priority.

The American Embassy in Prague and the U.S. Department of Commerce carry on an active program to help U.S. firms export to Czechoslovakia. In addition to its ongoing program of technical sales seminars, Commerce recently organized its first full scale exhibition at the Incheba Chemical Fair and will participate again in the annual Brno Engineering Fair, which this year will be held Sept. 13-21.

GERMAN DEM. REP.

Export Expansion, Productivity Stressed

At midpoint in the 1976-80 Five Year Plan, the German Democratic Republic has turned its attention primarily to two major economic themes in an effort to meet Five-Year Plan goals: foreign trade and domestic productivity.

As an industrialized country which imports a significant proportion of the raw materials it uses in industry, the GDR in recent years has faced sharp annual price increases for materials and fuel, Suzanne Porter of the Bureau of East-West Trade points out. Although prices of raw materials the GDR imports from its communist neighbors are still somewhat below world market prices, they have risen briskly during the current Plan period, reflecting to some extent increases in world market prices. During 1977, for example, prices for GDR imports rose an estimated 10 to 15 percent.

Furthermore, the slow economic recovery and continuing inflation which persist in the GDR's Western markets have combined with increased raw materials prices to put the country's economy under pressure.

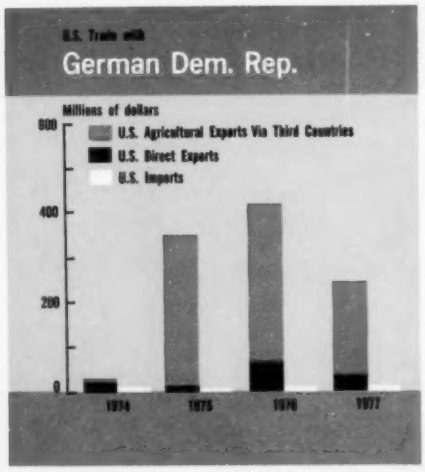
In an effort to improve its terms of trade, the GDR in recent months has intensified its efforts to expand exports—growth in GDR foreign trade for 1978 has been targeted at 11 percent over 1977 levels—and to improve productivity through increased economic efficiency and technological innovation.

Yet in spite of emphasis on the efficient use of scarce resources—both labor and raw materials—GDR productivity, principally in the consumer and food industries, in 1977 appears to have declined somewhat. Whether this can be attributed to the cut in weekly working hours of about 1½ percent during the year is uncertain. Nevertheless, while output in the consumer sectors of the economy appears to show a modest drop, expansion continues in the high priority sectors of the economy, such as electronics, engineering, and the capital goods sector.

Although economic development in the GDR will continue to stress investment in the chemical industry, metallurgy, the electrical and electronics industry, and the energy sector, primary attention will be directed toward completing investment projects already begun.

In agriculture, the GDR continues to emphasize greater mechanization and increased use of chemicals. GDR importation of feedgrain and other feed protein sources will continue to be an important adjunct to U.S.-GDR trade during the remainder of the current Five-Year Plan period.

As a part of its effort to increase U.S.-GDR trade, in May the GDR held its first Economic/Technological Congress in the United States, with stops in New York, Los Angeles, and Chicago. The Congress



was co-hosted by Commerce Department District Offices in the three cities, and by local and regional business organizations. The year-old private industry group, the U.S.-GDR Trade and Economic Council, sponsored the Congress.

These factors offer trade opportunities to U.S. firms, especially those with technology, equipment, or innovative production processes which can contribute to increasing economic efficiency.

HUNGARY

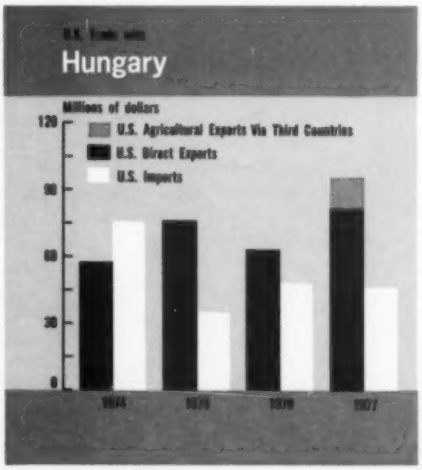
MFN Status Takes Effect, Spurring Trade Prospects

Diplomatic notes bringing the U.S.-Hungarian Trade Agreement into force were exchanged in Budapest on July 7. As of that date, the goods of both countries enjoy Most-Favored-Nation or non-discriminatory tariff treatment, explains Michael J. Hegedus of the Bureau of East-West Trade. This action follows recent Congressional approval of the agreement. Hungary thus becomes the fourth communist country to be granted such status and the second to do so under the provisions of the Trade Act of 1974. The other nations are Yugoslavia, Poland, and Romania.

With this agreement, U.S. companies can look for increased trade opportunities as their products exported to Hungary no longer are subject to the discriminatory tariffs which have long impeded American participation in that market. Such lower tariffs will allow U.S. firms to compete on equal terms with those of other Western countries. (Provisions of the Agreement were described in *Commerce America*, March 13.)

With the normalization of trade relations, U.S.-Hungarian trade is expected to grow considerably. U.S. exports in 1977 reached $96 million, while imports from Hungary were nearly $46 million. Hungarian officials believe that with this agreement U.S. exports to Hungary could increase in the near future two to three times over current levels. Specific opportunities for U.S. exports will be found in high technology items and manufactured goods, including communication equipment, food processing equipment, and automotive parts and accessories. U.S. imports of Hungarian pharmaceuticals, medical equipment, and precision and measuring equipment also probably will grow.

Overall, the Hungarian economy is performing well in line with its five-year plan projections. For the second year (1977) of the present five-year period, Hungarian figures showed that national income and most other economic indicators exceeded 1977 targets. Led by the strong recovery of the agricultural sector from the 1976 crop harvests, national income increased by 7.5 to 8 percent, industrial production by 7 percent and per capita income by 4.5 percent. This otherwise bright picture was marred, however, by excessive investment allocations and an increased hard currency trade deficit. Investment spending was 10 percent above the planned target, and marked a 19 percent increase in current prices over 1976. The Hungarian Government is making a conscious effort to bolster its export industries, thereby hoping to finance its needed hard currency imports.



Planned U.S. government-sponsored trade promotion events in Hungary over the next year will focus on these new developments and on those areas in which U.S. firms have a definite competitive advantage. These include technical sales seminars in communications equipment, meat and dairy processing equipment, lasers and electrooptics, and printing and graphic arts equipment. In addition, the United States will stage a commercial exhibition of communication equipment at the Budapest Spring Fair in May of next year.

In the private sector, U.S. business leaders will be able to discuss trade opportunities and other issues of mutual interest with Hungarian officials during the fourth plenary meeting of the Hungarian-U.S. Economic Council which will be held in mid-October in Chicago.

SALES TO NEAR EAST-NORTH AFRICA REMAIN ON STEEP UPWARD CURVE

Record U.S. Trade Deficit On The Decline

Accounting for 10.3 percent of total U.S. foreign sales in 1977, American exports to the Near East/North African countries grew 10 percent, or more than double the growth in total U.S. exports. American sales to the region this year ($5.8 billion during January-May) are expected by Kathleen Keim of the Bureau of Export Development to continue this trend, reaching $14 billion, an increase of 14 percent over 1977. On the other hand, U.S. imports from the region, which rose spectacularly during 1976 and 1977, showed a slight decline during January-May 1978 ($7.9 billion) compared to the same period last year ($8.0 billion). Near East/North African sales, primarily petroleum, to the United States in 1977 accounted for 13.5 percent of our total foreign purchases.

The strong performance of U.S. exports coupled with stable or falling imports this year will result in a reduced trade deficit with the region. Although statistics are not officially compiled, U.S. sales of services probably cover a substantial portion if not all of our trade deficit with the area. In Saudi Arabia alone U.S. firms have won at least $5 billion in major project awards over the past year. This demand for construction, engineering, architectural and other services will continue due to the serious lack of manpower and technical expertise in almost every country.

Business opportunities are expanding as a continuing result of the oil price explosion of 1973-74 which provided the impetus for the unprecedented economic expansion in almost every Near East/North African country. Since then the oil exporting countries have experienced rapid economic development followed by a period of reevaluation of their goals. Although economic growth rates vary, the average is now a more realistic 10-20 percent annually. Inflation of up to 40-50 percent per year, which plagued most of the countries during 1975 and 1976, has reached a more manageable level and is expected to remain at 10-20 percent during 1978. Egypt, Jordan, Tunisia and several of the other non-oil exporting countries are also recording higher levels of economic growth and reduced inflation. Israel, however, continues to suffer somewhat from stagnant growth and rapid inflation as the country seeks to adjust to worldwide economic disturbances and its New Economic Policy.

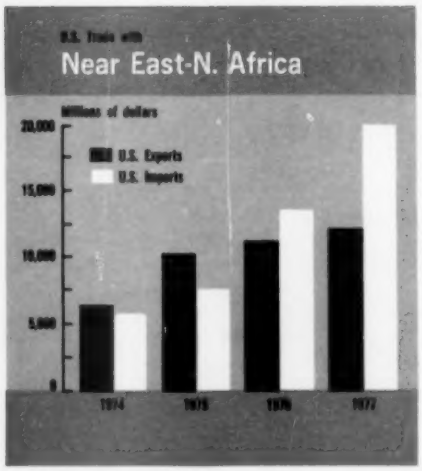
The people of the region can also point with pride at the movement toward industrial diversification that is evident from the number of industrial projects which have come on stream over the past several months. The new Arab Shipbuilding and Repair Yard located in Bahrain accepted its first ship in October. The Qatar Steel Co. inaugurated its continuous billet casting plant and rolling mill in April. Also, during February, Algeria inaugurated

its gas liquefaction plant at Arzew.

Despite the progress just noted, much remains to be done, and major projects are being undertaken in the areas of infrastructure, agricultural and industrial development. For example, the Government of Iraq is seeking prequalification applications from U.S. firms for construction of a major irrigation and drainage works project to reclaim salt-saturated land. One of the largest building contractors in Israel is planning to build a factory for the production of concrete-based elements for prefabricated construction systems. A Kuwaiti firm is seeking U.S. kitchen equipment suppliers, a sales promotion firm and an architectural firm for a fast-food restaurant project. The Libyan Government will construct a marine college consisting of teaching, residential, administrative and service facilities along with a theater, planetarium, playground and workshops. The General Establishment for Water in Aleppo, Syria will soon be issuing a tender for a major water supply construction project.

Bahrain's first two-year budget covering 1978 and 1979 authorizes no new major projects, but the country will move ahead with construction of a sewage system and electrical generating capacity. The health and housing sectors will receive major funding to complete projects already under way. Education also has high priority to provide trained manpower to run the island's regional service institutions. The Ministries of Labor and Education have already begun an occupational survey to guide adjustments to the educational system to meet future requirements. However, the largest upcoming project is the long-discussed Bahrain-Saudi Arabia Causeway, for which tenders are expected later this year.

Qatar, an oil-rich country of approximately 180,000 people and an annual per capita income of $11,000, has entered 1978 with development cutbacks. The budget reportedly allocates $1.3 billion for development, a decrease of 18 percent from the 1977 level. The annual inflation rate of approximately 25 percent limits real expenditures still further. However, as development proceeds in an orderly fashion, varied business opportunities exist for U.S. firms, especially for capital equipment, telecommunications equipment and consumer goods. An annex to the budget provides authorization to proceed with a $20 million refinery project. Qatar also plans to go ahead with an undersea communications project to link Qatar, the United Arab Emirates and Bahrain. The Director of Telecommunications states that he will seek consultants for the project in about two months. A modern retail outlet, which recently opened in Doha, the capital of Qatar, will cater to the Arab elite and Western expatriate community. The majority of items for sale, featuring



a full range of consumer goods including fresh meat, will come from the United States.

The **Yemen Arab Republic (YAR)** is probably the most underdeveloped country in the Near East. Nevertheless, as a result of the trickle-down of oil wealth from neighboring countries, Yemen is making important progress toward development. Yemen is benefiting from the repatriation of income from upwards of two million nationals working outside the country, primarily in Saudi Arabia. The YAR has also attracted Kuwaiti investment, principally in the construction industry, and additional investment from Kuwait and elsewhere can be anticipated. These two sources of capital, along with loans and grants from various sources, will finance Yemen's $3.5 billion development plan. High among the country's priorities is the development of both urban water and agricultural water systems. The YAR National Water and Sewerage Authority has a budget of $200 million to organize future water and sewerage projects. In particular, a number of dams are to be built to assist the expansion of cultivated areas.

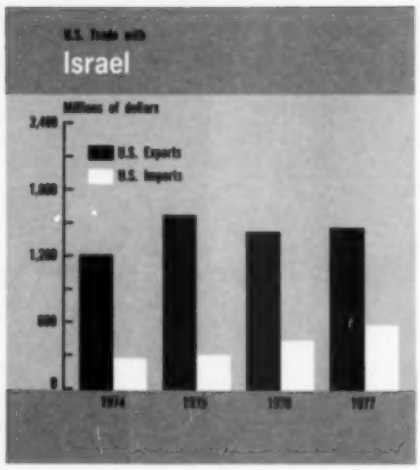
As oil reserves begin to dwindle, **Oman** is vigorously pursuing a program of oil exploration and exploitation of other minerals. At the same time, the government is focusing on agricultural development to stem migration to the cities and increase incomes in the interior of the country. In the industrial area, Oman is planning an industrial zone at Rusayl near Seeb. An asbestos cement pipe factory is already in operation in the zone, which will eventually include a steel rerolling mill and light industry. Infrastructure development aims at expanding electric power, telecommunications and water capacity. Oman's 1976-80 development plan calls for $42 million-plus investment in irrigation and water resources. Small dams are to be constructed to slow the runoff of heavy rainfall, and the traditional "falaj" system of underground waterways will be restored.

Jordan, with an economy that is essentially free enterprise and growing at approximately 10 percent annually, is catching the eye of an increasing number of firms. Jordan's favorable investment legislation, proximity to the Arab markets and skilled labor force are attracting U.S. firms interested in locating warehousing, light manufacturing and service facilities in the region. The first U.S.-Jordanian joint venture, the International Leather Products Co., was officially inaugurated this year. The company expects to produce 250,000 pairs of shoes per year, which will be sold entirely in the Near East. Business opportunities for U.S. suppliers can be found in Jordan's continuing agricultural and industrial development program. Irrigated land in the Jordan valley is being expanded, a $300 million facility for the production of phosphate fertilizer is under construction and financing arrangements are being finalized for a project to extract potash from the Dead Sea.

U.S. exports to **Syria** dropped from $272 million in 1976 to $134 million in 1977. The slide was due to Syria's economic difficulties occasioned by the intervention in Lebanon, the loss of Arab aid and the resulting balance of payments deficit. The Syrian Government has now relaxed controls on the importation of goods by the private sector, most of the Arab aid has been restored and the balance of payments problem has been controlled. The latter half of 1978 is expected to bring renewed economic activity as delayed projects are undertaken.

The economy of **Lebanon** has been slowly and steadily recovering from the effects of the 1975-76 civil war. U.S. exports to the country, which plunged to $48.5 million in 1976 rose to $124 million in 1977. U.S. exports for January-May 1978 amounted to $79 million and were running at more than double the rate for 1977. The deterioration in local security and the recent fighting has dealt a severe blow to the prospects for recovery. The security situation is now so poor that business travel to Lebanon is no longer advised.

American business officials should be aware that the Arab boycott of Israel poses an element of uncertainty in U.S. trade relations with countries of this area. The Export Administration Act of 1969, as amended by the Export Administration Amendments of 1977, declares it to be the policy of the United States to oppose foreign boycotts of friendly countries, to encourage U.S. persons to refuse to take actions which have the effect of furthering or supporting such boycotts, and, in specified cases, to prohibit U.S. persons from taking such actions. U.S. firms should become familiar with the Department of Commerce implementing regulations which took effect Jan. 18.



ISRAEL

Growing Export Sector Provides Market For U.S.

U.S. exports to Israel have risen remarkably in recent months, gaining by $101 million in January-May 1978 over the same period in 1977 to a five-month total of $712 million. The upward trend should continue throughout 1978 as a result of the import requirements of Israel's burgeoning export sector, the impact of trade agreements, and the incentives provided by the government's New Economic Policy (NEP), according to Eli J. Sasaran of the Bureau of Export Development.

There is basis for optimism that Israel may be recovering from its economic doldrums of the past few years. The business community is more confident and leading indicators in early 1978 show gains in building starts and expenditures on consumer durables. The government is forecasting a real growth rate of 4 percent for 1978 with acceleration to 8 percent in following years.

Major progress has been made in dealing with the balance-of-payments current account deficit, which had ballooned to $4 billion in 1975 as Israel sought to replenish its military supplies in the aftermath of the 1973 war. Global inflation also contributed to the balance-of-payments problem and aggravated the domestic inflation rate as well. In 1977, inflation remained at an extremely high level, registering 42.5 percent, although the current account deficit continued to decline, dropping to $2.56 billion, partly as a consequence of the country's very successful drive to increase its exports.

In recent years, exports have grown at exceptional rates, rising by 24 percent in 1976 and 28.4 percent in 1977. Most of the expansion has taken place in the science-based industries. In order to develop further, these industries will have to import more technically sophisticated production and testing equipment. This should provide a favorable market for U.S. exports, since few of their competitors in other countries can offer the kind of advanced technology produced by American manufacturers.

Israel's exports will experience even greater growth as a result of major trade accords. An Association Agreement was reached with the European Economic Community in 1975. Under terms of the arrangement, the EEC agreed to lower its tariffs on products manufactured in Israel. These duties were to be eliminated entirely by July 1977. In return Israel agreed to gradually reduce its tariffs on products manufactured in the EEC, although a longer period is involved before these duties are abolished altogether in 1985.

The Association Agreement will provide U.S. business with greater marketing and investment possibilities as Israel's export industries are enlarged in order to take advantage of the country's new relationship with the EEC. At the same time, the agreement will enlarge competition as well.

A 1976 agreement with the United States establishing Israel's eligibility for the Generalized System of Preferences (GSP) will also have the effect of increasing Israel's exports as well as improving prospects for U.S. sales and investment. The GSP aids sales to the United States from developing countries by eliminating U.S. tariffs on 2,700 items. Israel reciprocated by decreasing its duties on 130 U.S. products.

Israel's exports will receive further impetus from recent policy changes by the government. In October 1977 the New Economic Policy (NEP) was announced. The NEP aimed at reducing the level of government involvement in the economy and ending the nation's dependence on foreign assistance. One of the major objectives was to improve Israel's balance-of-payments position. A number of actions were taken on this front. The Israel pound was allowed to "float"; most controls on foreign exchange transactions were eliminated; and certain import duties, surcharges and taxes were either reduced or removed. These measures were designed to contribute to the development of export-oriented and import-substitution industries.

The best prospects for U.S. sales to Israel are in the fields of electronics industry production and test equipment, electronic components, computers and peripheral equipment, engines and mechanical power, metalworking equipment and health care equipment. The American Embassy in Tel Aviv plans to hold trade events promoting textile equipment (December 1978), electrical energy systems (January 1979), and audio-visual equipment and educational aids (March 1979). Also under consideration are a metalworking and machine tool video catalog exhibition (November 1978) and an electronics solo exhibition (March 1980). At Israel's international trade fair, Technology '79 (June 1979), the United States will have an exhibition highlighting industrial process control equipment and food processing and packaging equipment.

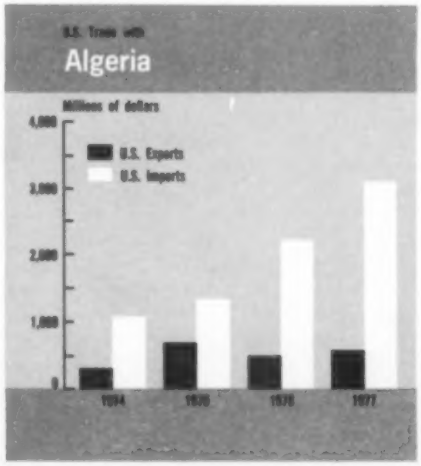
ALGERIA

Major Opportunities Exist Despite Development Pause

Though in a year of "consolidation" between development plans, Algeria continues to offer significant opportunities for U.S. exporting, contracting and consulting firms, according to Claude Clement of the Bureau of Export Development. Due mainly to an improved harvest and lower grain imports, which account on the average for about 30 percent of U.S. sales to Algeria, U.S. exports fell 33 percent during the first five months of 1978. U.S. sales in other areas continue to grow, however, as Algeria places top priority on completion of large-scale projects requiring high technology products and processes in which the United States has recognized leadership. For the year as a whole, U.S. exports are likely to level off at $500 million for a decline of five percent.

Algerian GDP grew by an estimated 19 percent in 1977 to $19.6 billion, and is projected to top $21 billion this year. Gross imports, which in 1976 dropped by 4.4 percent to $5,121 million, bounced back by almost 29 percent last year to an estimated $6.6 billion. Gross exports topped $6 billion in 1977, and for the first time more than half were bound for the United States.

Algeria's bright long-term economic outlook is due primarily to the country's reserves of oil and gas, which are adequate to support a greatly expanded export program for the rest of the century. The share of oil and gas in total GDP, only 15 percent in 1970, has more than doubled and



will increase further in the years immediately ahead as exports of liquefied petroleum gas, condensate or natural gas liquids, and liquefied natural gas from new facilities begin to grow rapidly.

With the inauguration of a major new gas liquefaction facility last February, U.S.-Algerian economic/commercial ties grew closer in two respects. The value of using American firms—the major contractors for all three of the LNG plants scheduled to come on stream by 1982—in attaining Algeria's goal of developing natural gas exports as oil reserves decline in the 1980's was emphasized. In addition, all the LNG produced at this plant will be shipped to the United States, pointing out Algeria's growing dependency on the American energy market. In the long term, U.S. firms have contracted for about half of Algeria's planned LNG output of some 75 billion cubic meters a year.

Although eager for rapid development of the economy, Algerian officials have designated 1978 as a year of pause between development plans. The upcoming plan (1979-82), currently under preparation, is expected to give top priority to the non-industrial sectors, particularly housing, education and training, infrastructure, and regional development. Investment in industry is likely to be moderate with the exception of the hydrocarbon sector, to which maximum resources will continue to be allocated. Priority will be given to improving productivity in existing manufacturing plants, as well as to insuring a more rigorous selection of new projects.

Agricultural development, which has been neglected in past years in favor of industrial projects, is also receiving top priority. After extensive national debate, it is now widely accepted that the government has not been successful in stimulating farm production and stemming serious population drifts to the towns. To remedy this situation, farm wages have been increased by 30 percent, allocation for agriculture in the newly announced 1978 national budget is up 100 percent, and some industrial projects may be shelved in favor of agriculture. For the long term, Algeria is erecting a 950-mile-long "green barrier" of trees to protect and expand the agricultural zones of the north against the gradual advance of the Sahara desert. This $2 billion, 20-year undertaking will triple Algeria's 9 million hectares of cultivable land, entailing sizable expenditure for irrigation equipment, piping and construction of wells and canals.

As Algeria is determined to continue the momentum of its drive toward economic development and self-sufficiency, a broad range of opportunities exist for U.S. companies in design, engineering, and manufacture of high-technology products. Particular opportunities lie in communications equipment, and housing, agricultural, and medical infrastructure projects. Algeria's hydrocarbon program should be particularly attractive to American firms in view of the U.S. lead in this field and the huge investments ($33 billion to the year 2005, over half of which represents foreign exchange costs) that are under way or planned.

American firms seeking business opportunities in Algeria must bear in mind that this is a particularly difficult market, and one in which the best effort is required for success. Although American firms will find it necessary to maintain contact with Algerian officials during the pursuit or implementation of any substantial project, local agents or representatives are prohibited by law—suppliers are now required to sign an affidavit certifying that they used no agents. Market penetration can thus be a difficult operation, requiring patience, use of the French language, and rigorous adherence to commitments. It is also important to be able to support sales efforts with financing. For all this, Algerians are basically well disposed toward American technology and to business dealings with Americans.

In 1978, the Commerce Department will be sponsoring technical sales seminars on cargo handling in October and communications equipment in December.

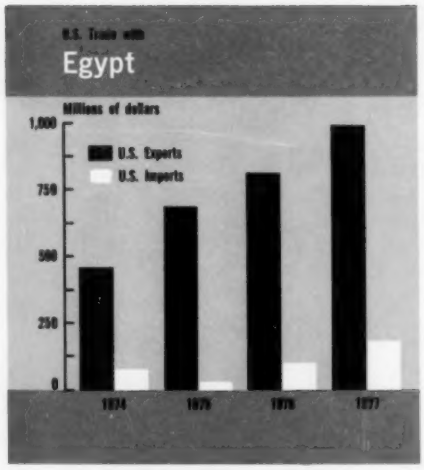
EGYPT

Impressive Revival Fuels Import Growth

U.S. exports to Egypt in 1978 should exceed the record level of $982.4 million set last year. More and more American suppliers are learning to benefit not only from the continuing high level of U.S. assistance but are also competing for sales financed from other aid programs as well as from Egypt's own growing foreign exchange earnings, reports Joe Lill of the Bureau of Export Development.

Egyptian economic revival following announcement in 1973 of the "open-door" policy has been impressive. Annual growth in real terms of Gross Domestic Product—only 2.8 percent in 1973—rose to 8.9 percent in 1975 and 9.4 percent in 1976, with 1977 growth believed to be in the same range. The draft Egyptian Five-Year Plan for 1978-82 projects an annual real growth rate of 12 percent.

Along with accelerated growth, however, have come greatly increased trade deficits (from $661 million in 1973 to $2.6 billion in 1976). It is expected that Egypt's 1978 foreign exchange needs of $3.4 billion (an anticipated $2.2 billion current account deficit plus debt servicing) will be fully met by the Western and Arab donor states and institutions. U.S. aid to Egypt in FY 1978 will total about $950 million (composed of $450 million in project aid and $500 million in food and other commodity aid). A similar total level of American aid to Egypt for FY 1979 has been proposed to the U.S. Congress. In a meeting in Paris last June of the Consultative Group for Egypt, an organization of aid donors, there was general agreement that Egypt could begin to reduce its dependence on foreign assistance within a few years.



There is no question but that the huge American aid program administered by the Agency for International Development has provided the catalyst for the growing interest of U.S. firms in Egypt. Among the many projects receiving AID financing are a 300-MW thermal plant to be installed at Ismailia, a National Energy Control Center, comprehensive studies of the water and sewage facility needs and management policies for the Cairo, Alexandria, and Suez Canal areas, and a recently completed study and master plan of telecommunications developments required by Egypt through the year 2000. AID will be providing funds for equipment sales and management services to meet needs identified by the telecommunications study, and anticipates obligating $40 million this fiscal year.

Egypt's most important sources of hard currency earnings are remittances from expatriate workers (amounting to as much as $1,500 million last year), and tourism, petroleum exports, and Suez Canal receipts each of which generated net earnings surpassing $400 million in 1977.

Some 175 American firms are now active in Egypt in fields of banking, hotels and tourism, oil exploration and production, insurance, accounting, architecture, engineering, trading, construction and manufacturing.

Although about 60 percent of U.S. sales to Egypt are in farm-based products, exports of manufactured goods have been increasing. Strong gains were registered in 1977 over the previous year in sales of many products including machine tools, metal treating and finishing equipment,

farm and garden tractors, excavators, conveyors and other materials handling machinery, prefabricated buildings, building hardware, fixtures, and supplies, drilling equipment, pumps, valves, compressors, engines and mechanical power equipment, trucks and truck parts, and navigation instruments.

Favorable prospects are foreseen for increased sales this year of food processing equipment, electrical generation and distribution equipment, and water treatment and handling machinery.

In an effort to assure a more rational allocation of available foreign exchange, the Egyptian Ministry of Trade and Supply has published a list of 85 locally-produced goods that now require prior Ministry approval for importation. The list includes cables, tractors, irrigation and drainage pumps, electric motors from 3/5 to 15 hp., artificial leather, cosmetics, and various textiles and yarns. The impact of this policy on American traders is likely to be limited however, since most of Egypt's imports from the United States probably do not have equivalents made in Egypt.

The American pavilion at the Cairo International Fair last March was a great success, with $3 million in immediate sales and projected 16-month sales of $70 million reported by the 32 participating firms. Another U.S. pavilion is planned for next year. In addition, electrical energy equipment and communications equipment trade missions to Egypt are scheduled for December of this year and April 1979, respectively.

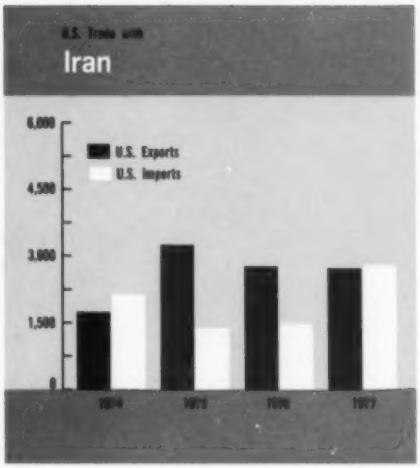
IRAN

Market Recovering Strongly Despite Slide In Oil Output

While Iran is still suffering from the after-effects of the excessive growth rates of 1974 and 1975, there is strong evidence that the economy is once more moving into high gear, according to Michel F. Smith of the Bureau of Export Development. It appears that U.S. sales to Iran in 1978 will total some $3.4 billion, well above the all-time record $3.2 billion achieved three years ago.

The United States has long been Iran's No. 1 supplier. Looking at the non-military market alone, however, West Germany remained in the lead last year with a solid 18 percent, the United States held on to a 15.9 percent market share in 1977, and Japan was a close third.

While shipments of American wheat and rice were up again last year, almost to the levels they were in 1974/75, U.S. machinery suppliers failed to make any serious inroads against stiffening third-country competition. However, a number of major projects, in which U.S. engineering firms are involved, are moving forward, giving



a boost to U.S. sales of building materials and heavy equipment. Furthermore, Iran Air is looking to the United States to supply large quantities of civilian aircraft and spare parts over the next four years. Through May of this year U.S. exports to Iran were running about 30 percent ahead of last year, and the remainder of the year should also show strong improvement over the past two years.

Despite impressive industrialization programs over the past decade, Iran's fortunes remain tied to the petroleum sector. Oil last year accounted for one-third of the country's Gross National Product, three-fourths of government revenues, and over 80 percent of foreign exchange receipts. Agriculture, the traditional backbone of the economy, where over a third of the total labor force is found, now contributes less than 10 percent of Iran's GNP.

Thus, the current slide in oil production (a result of sluggish demand in the West), together with still heavy inflationary pressures from persistent infrastructure bottlenecks and manpower shortages, have combined to produce stagflation. In other words, Iran as late as early 1978 had not yet recovered from the dislocations of the 1973/74 oil bonanza and the "go for broke" mentality that dominated the scene in the period immediately following. While annual per capita GNP now exceeds $2,200 (compared with about $250 ten years ago), its 13.2 percent growth last year was not enough to keep up with inflation, which at one point in mid-1977 reached an annual rate of 31 percent.

Despite a further decline anticipated in the oil sector, however, the forecast for this year's economic performance is somewhat brighter. The U.S. Embassy predicts real growth of 3.6 percent, with annual per capita GNP climbing to an unprecedented $2,540, a 9 percent growth in Iran's industrial sector, and a modest improvement in agricultural output. The government hopes to bring the inflation rate down to 10 percent this year, but a continued wage spiral may make this goal unreachable.

Iran's external account remains healthy but reflects increasing reliance on external borrowing to finance imports. The Central Bank's foreign exchange reserves as of March totaled a record $11.4 billion, up by more than $2 billion over a year earlier and enough to cover six months of imports of goods and services. Given static oil revenues and an import bill rising 10-15 percent a year, Iran may soon be forced to begin drawing down its reserves, and it probably will experience current account deficits within the next five years. The yet-to-appear Sixth Development Plan (1978-83) is expected to concentrate on finishing the many projects already under way and to stress basic infrastructure development rather than vital (but less urgent) industrialization projects.

Foreign direct investment in Iran is on the upswing, spurred by creeping infant-industry protectionism. The estimated book value of all private foreign equity investment in Iran as of August 1977 was $1.8 billion, of which U.S. companies accounted for $700 million. The growing size of the market makes Iran an increasingly attractive place in which to do business.

In an effort to stimulate U.S. sales to Iran, the U.S. Government participates regularly in the big Tehran International Trade Fair, and also operates a Trade Center in Tehran. In addition, a major effort is being made to promote the attendance of Iranians at key trade shows in the United States.

KUWAIT

U.S. Exports Advancing In Diversified Market

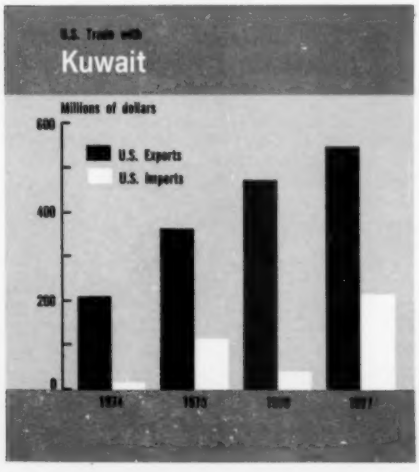
Kuwait continues to be the second largest cash market for U.S. exports in the Arab World. Although the pace of U.S. exports to Kuwait declined slightly in early 1978, this may be attributable in part to the temporary effects of the U.S. anti-boycott legislation now being ameliorated, as Kuwait adjusts to the requirements of this law. With the impetus of lower dollar prices, Kuwait's purchases from the United States are expected to increase to about $620 million this year compared to $548 million in 1977, reports George T. Beck of the Bureau of Export Development.

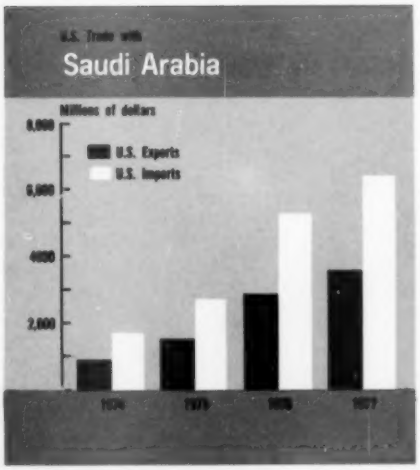
As Kuwait has one of the world's highest per capita incomes, increasing foreign exchange reserves and a varied economic development program, it has a large buying propensity in both the government and business sectors. Products in heavy regular demand from the United States include automobiles, aircraft, air-conditioning and refrigeration units, mechanical handling equipment, chemicals, electrical household appliances, tobacco, and food and live animals. The demand for construction equipment, normally very large, is quite slack at this time. Some recent trade

opportunities relayed to U.S. industry by the American Embassy in Kuwait illustrate the ever-diversifying local market for new products and processes such as computer keyboards, computer-assisted medical systems, electrical and petroleum testing laboratories, fire prevention equipment, and armored security vehicles. Consumer goods such as clothes and recreational, educational and entertainment equipment are in increasing demand by the small but heavy-spending middle class.

Export sales prospects in connection with Kuwait's industrialization goals under the $16 billion Five-Year Development Plan (1976-77 through 1980-81) are hard to evaluate, as these goals are contingent both on the overall availability of associated gas supplies linked to Kuwait's petroleum output and internal requirements for gas supply for Kuwait's advanced power and desalination facilities. Although Kuwait has not yet published details of the Plan, it is known to call for an expenditure of $4.4 billion for industrial projects, 80 percent or more for hydrocarbon-based projects. The Kuwait oil companies are planning expenditures of up to $1.5 billion to expand present refineries. A very large non-associated gas gathering facility to be completed in 1978 to ease Kuwait's tight gas supply situation may now be delayed because of a serious oil fire. Petrochemical plants in an advanced stage of planning but still dependent on world marketing conditions include a $300 million aromatics plant, a $550 million olefin project, an $80 million liquid ammonia plant, a $70 million hydrazene plant, and a $25 million melamine project.

Progress continues on the National Housing Authority's $4 billion program, but most major contracts have been awarded recently to Asian construction firms to the chagrin of competing firms from Western nations. The $1 billion or more highway expansion program is going strong; some tenders have been awarded, a few to U.S. firms, and more will be let soon.





SAUDI ARABIA

Greater Economic Stability Seen; Inflation Slows

As Saudi Arabia begins the fourth year of its $142 billion Five-Year Development Plan, the outlook is for greater economic stability and a more orderly and measured progress toward its goal of economic development and diversification following the leap forward during earlier years of the Plan. Major economic bottlenecks have generally been eliminated, and inflation has been reduced to a manageable level. Stepped-up government spending in 1978 and increased activity in the private sector following last year's slowdown offer myriad opportunities for sales of U.S. goods and services, reports Jackson B. Hearn of the Bureau of Export Development.

Saudi Arabia's imports increased by 24.6 percent in 1977 to an estimated $16.5 billion (c.i.f.) and are likely to exceed $20 billion in 1978. U.S. exports are estimated to reach $4.3 billion (f.a.s.) in 1978, exclusive of large sales of consulting and engineering services. There are signs, however, that the U.S. share of the Saudi import market may decline slightly in 1978 (from an estimated 24 percent in 1977) in the face of competition from Europe, Japan, and other Far East countries.

In contrast to the preceding years of frenzied economic and commercial activity, 1977 was a year of retrenchment and stocktaking, and a year of intensive efforts—largely successful—to overcome institutional and infrastructural bottlenecks which had been a major cause of an inflation rate of over 30 percent. Successful efforts to eliminate port congestion—a major accomplishment—were especially significant and made possible more orderly scheduling of purchases and deliveries. Port decongestion also brought a decline in shipping rates to Saudi Arabia. Government efforts to hold the line on expenditures in the FY 1977-78 budget, a topping out of the real estate boom, the extension of retail and wholesale price controls to additional essential goods, and government pressures on contractors to hold down bid prices all contributed to lowering the inflation rate from 31 percent in 1976 to the current level of 10 percent.

The solid accomplishments of 1977 provide the basis for a renewed surge in business activity in 1978 and succeeding years. The new government budget for FY 1978-79 (beginning June 6, 1978) is mildly expansionary. Revenues are projected at $37.7 billion, 17 percent higher than in the previous year's budget (but 23 percent higher than actual expenditures in that year). Oil revenues are projected to account for 88.5 percent of total revenues, based on the assumption of no oil price increase and average daily production of 8 million barrels. Although a balanced budget is required by law, spending requests from government agencies totaled over $69 billion and were only trimmed back to $42 billion in the budget. The government is counting on under-spending to keep within revenue ceilings.

As in previous years, the development project budget takes two-thirds of allocated expenditures. The major emphasis (other than on national defense) is on infrastructure projects—roads, seaports, airports, airlines, telecommunications, public utilities, water resources, and housing—with allocations totaling $11.8 billion. Construction will also begin on the first of several basic heavy industries which are planned to produce petrochemicals, refined petroleum products, and steel.

The award of many major project contracts during 1977 should have favorable trade implications for U.S. business in 1978. Between April 1977 and April 1978, U.S. firms alone won major construction and engineering contracts totaling about $5 billion; in addition, U.S. design firms and consulting engineers won many smaller contracts. Of particular significance to U.S. contractors and equipment suppliers are the important roles U.S. firms are playing as construction managers in such major project areas as the Jubail and Yenbo industrial complexes, the Eastern Province gas gathering system, a cross-country oil pipeline, major airport construction, electrification, and others. In addition, the U.S. Army Corps of Engineers is supervising some $24 billion in building projects for the Saudi military.

In addition to government ministries, there are a number of government institutions which are important potential customers for U.S. goods and services. These include the Saudi Arabia Basic Industries Corporation, the General Electricity Corporation, the General Seaports Authority, the Saline Water Conversion Corporation, and the Real Estate Development Company.

Firms wishing to take advantage of the various opportunities for sales to the Saudi

government should take steps to acquire representation in Saudi Arabia, as government contracts are limited to Saudi firms and foreign firms represented by Saudi agents. Firms might also consider taking on a Saudi partner and forming a Saudi company to take advantage of the preference given to Saudi firms in government procurement. U.S. firms should be aware of the regulations issued in January 1978 governing the relationships between foreign contractors and consultants and Saudi agents. Foreign firms may have more than one agent in Saudi Arabia, but commissions cannot total more than 5 percent on any goverment contract. Saudi agents can represent up to ten foreign contractors or consultants, but only one on any particular contract.

Although government spending predominates, firms should not overlook the many lucrative business opportunities afforded by Saudi Arabia's dynamic private sector. Now that real estate speculation has peaked, more of the abundantly available local private capital is moving into industrial and agricultural ventures, and Saudi entrepreneurs are increasingly seeking foreign joint venture enterprises. Saudi joint ventures enjoy the advantages of tax holidays, 2 percent money for up to half the cost of an industrial project, essentially free land and utilities, and government grants for imported equipment. Some $4.8 billion in FY 1978-79 government funding of domestic credit institutions will provide stimulus in the private sector.

Best prospects for U.S. suppliers in Saudi Arabia, apart from the market for services, include: building supplies, fixtures, and equipment for construction and materials handling; electric power equipment; communications equipment; health care and educational materials and equipment; drilling for hydrocarbons and water; aviation and avionics; computers and peripherals; air/water filtration and purification equipment; refrigeration equipment; navigation and traffic control equipment; agribusiness equipment (primarily irrigation and spraying machinery); business equipment; household and institutional furnishings; and consumer goods new to the market, such as convenience foods, luxury and leisure goods and decorative items.

Doing business in Saudi Arabia requires patience, persistence, and personalized service. Competition is strong, but U.S. firms enjoy the advantage of Saudi familiarity with and respect for U.S. goods and technology. Saudi buyers are increasingly sophisticated, however, and it is a mistake to assume that anything will sell there at any price. There are increasing complaints from Saudi buyers, government and private, of inflated price quotations by U.S. firms. Such practices can have serious adverse effects on U.S. exports to Saudi Arabia, since the Saudis can readily find alternative sources of supply.

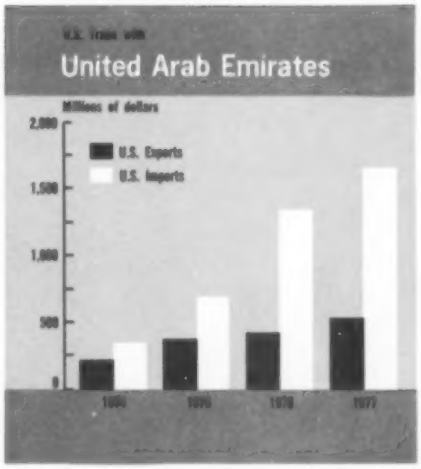
UAE

Large Government Projects Account For Most Imports

The United Arab Emirates is a market of major interest for large U.S. firms which perform architectural or engineering work, build large construction projects or supply goods to major projects. The market is not as strong for other firms as consumer demand is limited and the slowdown evident in 1977 continues to some extent in the banking and trading sector. U.S. exports will continue to expand, although not as sharply as in past years, increasing to approximately $560 million in 1978 compared to $524 million in 1977, according to S. Dickson Tenney of the Bureau of Export Development.

The disparity of wealth among the seven Emirates remains large: Abu Dhabi, the richest, derives most of its wealth from its petroleum and gas exports; Dubai, from its role as the principal commercial center and from modest oil exports; the other Emirates, however, are increasingly dependent on assistance, particularly from Abu Dhabi. Most UAE imports are by Abu Dhabi and Dubai for equipment needed to expand oil and gas facilities and related infrastructure, including oilfield equipment, electrical and non-electrical machinery, heavy transport vehicles, power generation and air-conditioning and refrigerating equipment and materials for water resource development. Consumer items in some demand include clothing, automobiles, pleasure boats, and household and office furnishings. Reflecting the recent spate of serious fires in the Middle East, demand is growing for fire and safety equipment.

U.S. companies are faring well in recent project awards. The Fluor Corporation was awarded a contract by the Abu Dhabi National Oil Co. (ADNOC) to provide construction management assistance at the multi-billion dollar industrial complex at Ruweis (Jebel Dhanna). The U.S. company will implement the construction of three major oil product shipping terminals, a residential community, a telecommunications network, an airport, and extensive municipal services. Major purchases should begin in 1979. Abu Dhabi also awarded recently a number of contracts to recover and transport associated gas from the Umm Shaif oilfield, with the British branch of Stone and Webster responsible for design and contract supervision. ADNOC and several foreign firms are now planning development of the Upper Zakum oilfield at an anticipated cost of $4.8 billion. U.S. firms are uniquely qualified to bid on the four phases of the project: the development of an offshore complex and three satellite stations to separate oil and natural gas; the construction of some 125



well-head production platforms; the laying of submarine pipe for hydrocarbon and water injection systems; and various onshore installations including work camps, an airport, port terminal facilities, and a plant to handle condensates.

Dubai's development projects are progressing at its new industrial site, Jebel Ali, where work has begun on the aluminum smelter and on the Gulf's largest port, which will have 60 berths. Although British firms still dominate this area, two U.S. firms—the Bechtel Corporation and Sealand—have recently won contracts there.

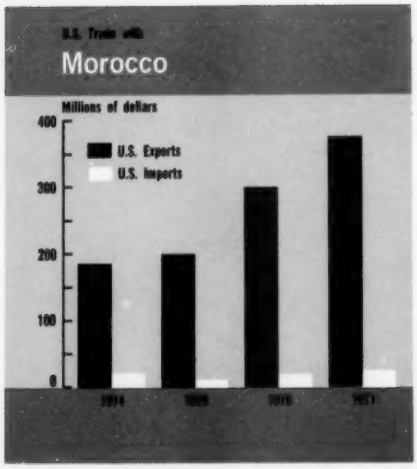
MOROCCO

More Moderate Increases Seen For U.S. Sales

Thanks to Morocco's determination to push ahead with its capital intensive development efforts in the face of economic difficulties and a sharp slowdown in economic growth rates, the outlook for U.S.-Moroccan trade in 1978 is favorable. Despite a leveling off of total Moroccan imports this year at about $3.1 billion, as opposed to an increase of 22 percent in 1977, U.S. exports to Morocco jumped 47 percent during the first five months of 1978 and are likely to rise 20 percent for the year as a whole to $428 million, Claude Clement of the Bureau of Export Development notes.

The main causes of the slowdown of Moroccan economic growth include a poor harvest in 1977, the continued sluggish demand for Morocco's key export item, phosphate rock, reduced earnings from fresh and processed citrus/vegetable exports to Europe, and the escalating costs of continuing hostilities in the Sahara. These factors combined to further enlarge the country's traditional trade imbalance, which rose 33 percent in 1977 to $1.8 billion.

Morocco's economic officials have moved, however, to implement rapid corrective ac-



tions. Several of these were announced by King Hassan in a speech to the nation on June 4, including the replacement of Morocco's new, but never published, Five-Year Development Plan with a "transitional" three-year plan (1978-80). Though no specifics have been announced, the shortening of the plan period will make it easier for the Government to control expenditures and allow projects behind schedule to be completed. Also, in a move to encourage a large repatriation of funds earned by Moroccan workers abroad (primarily in France), the Moroccan dirham is being aligned with the French franc. The King also called for a 20 percent reduction in imports during the new three-year development period. Measures to implement this directive include the requirement of import licenses for a wide range of products, including certain luxury items and industrial machinery.

As a result of these actions, 1978 is likely to be a year of substantially increased fiscal discipline, with investments focused on high priority development projects. Given the prospects of a good to excellent harvest, increased tourist revenues, more moderate inflationary pressures (estimated at around 9.8 percent), and improved demand for phosphate rock and citrus/vegetable exports, Morocco should come through 1978 without severe problems. Domestic austerity, lower government investment expenditures, and tight control over domestic and external credit will nevertheless be the order of the day. Given a little luck with the weather, GNP growth could bounce back from 1.3 percent in 1977 to a possible 6 or 7 percent in 1978.

Projects likely to receive top priority in the new 1978-80 development plan include a new phosphoric acid plant, an oil refinery, a steel mill, port infrastructure for the integrated chemical complex and industrial port to be built for Jorf Lasfar, rail lines, road construction, as well as irrigated land development and numerous other agricultural and industrial projects. Technical and management service companies will find an increasing market in Morocco as industrialization increases and development of high technology agriculture progresses. Interest will be particularly strong in high technology products and processes in which the United States has recognized leadership.

Activities to be sponsored by the Department of Commerce this year include sales seminars on cargo handling equipment in October and communications equipment in December.

IRAQ

Government Action Seen Altering Trade Patterns

The first half of 1978 brought with it several events which may have both positive and negative impact on the efforts of U.S. industry to capture a larger share of the Iraqi market, Karl Reiner of the Bureau of Export Development points out. The Iraqi Government has undertaken a major review of its commercial relations and has begun to implement a policy of directing its purchases of imports to those nations which buy large amounts of Iraqi crude oil. This policy is expected to alter established trade patterns by reducing imports from such major suppliers as West Germany and by increasing imports from such nations as Italy and Brazil. As 1977 was the first year in which U.S. imports from Iraq ($381 million) exceeded U.S. shipments to Iraq ($211 million), there is some possibility that the Iraqi purchasing policy may benefit U.S. exporters.

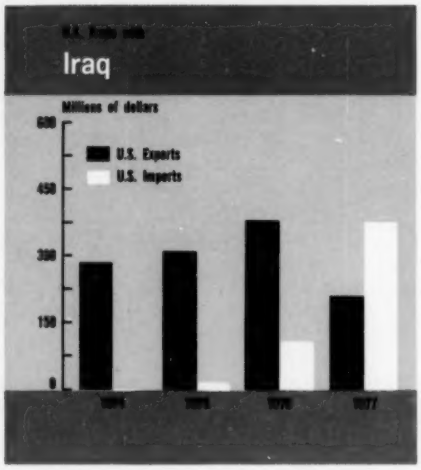
Another factor which may have long-term effects on trade between the United States and Iraq is Iraq's changing relationship with the Soviet Union. Indications are, that due to policy differences on regional issues, the long-standing Iraqi-Soviet relationship may be cooling off a bit. These changes may make Iraq somewhat more disposed toward improving relations with the United States. If the U.S.-Iraqi political climate improves, commercial contacts could be made easier.

At present, the major obstacle to increased trade between Iraq and the United States is the Arab boycott of Israel. The Iraqi Government maintains a strict enforcement of the boycott, which is believed to have contributed to the decline in U.S. exports to Iraq in 1977. The Government of Iraq has flatly denied any intention of severing all commercial relations with the United States. However, there is no indication that Iraq intends to modify its boycott procedures in any major way in the near future. Under certain circumstance, the Iraqi Government may grant waivers for shipments involving needed spare parts, items necessary for the completion of projects under way and in specific cases where the product is particularly wanted.

Iraq is one of the few nations in the area with the potential for large-scale agricultural and industrial development. The government controls 90 percent of the economy and, with oil revenues in the vicinity of $10 billion per year, is continuing to implement major development projects.

Despite the difficulties, established firms will find that good sales potential exists for agricultural products and agricultural and construction machinery. Specialized items such as aircraft, locomotives, computers, oil field equipment and electrical gear are expected to be in demand by Iraqi State organizations. Opportunities will continue to exist for U.S. consultants and designers involved with petroleum and other basic resources projects.

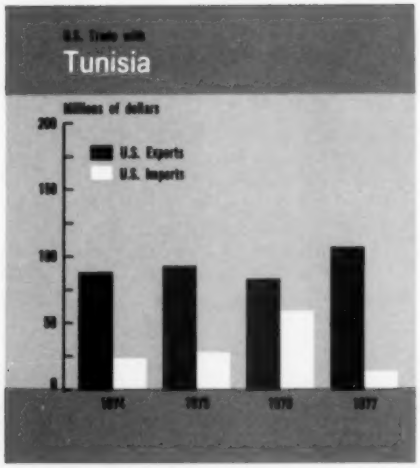
Medium and small sized firms which may be contemplating a first attempt at entering the Iraqi market would be best advised to defer action until later. Commercial opportunities, for smaller firms, are not the best right now and it will be several months before it is learned if any of the mitigating factors have improved chances for U.S. firms in the Iraqi market.



TUNISIA

Economy Improves, U.S. Sales Opportunities Grow

The economic picture in Tunisia is brighter than it has been for more than a year, Claude Clement of the Bureau of Export Development reports. Private sector investment has made a strong comeback and there are good prospects for a quickened pace of development in 1978. Primarily as a result of good weather conditions and an upturn in agricultural production, U.S. exports slipped 12 percent during the first five months of 1978. U.S. sales in other areas, however, should continue to grow as the expanding economy and new development projects boost demand for capital



goods and services. For the year as a whole, U.S. exports are expected to rise 10 percent to $125 million.

Total Tunisian imports in 1978 probably will top $2 billion in value, up almost 13 percent over 1977. Exports are expected to climb 11.5 percent above last year's figure to reach $1 billion. The resulting further increase in the trade deficit will be covered by tourist revenue, remittances from Tunisians abroad, and foreign private investment and loans, coming increasingly from wealthy Arab states. Also, a new customs tax ranging from 5 to 300 percent on imports of "non-essential" and luxury goods—about 18 percent of total imports last year—was imposed in March to help contain the deficit and cover higher subsidy costs on basic necessities.

Tunisian Gross Domestic Product of about $5 billion in 1977 is expected to increase 10 percent this year in real terms. Upturns are expected in several sectors, including agriculture, construction materials, phosphates and fertilizer, petroleum, and possibly tourism. Investment is expected to reach $2.6 billion, up 17 percent over last year, and moderate growth in consumption should permit a further increase in the national rate of savings to 21.6 percent of GNP. Inflation in terms of the average middle class market basket is estimated at about 10 percent annually.

This year's economic upturn will enable the Government to push ahead with its current development plan (1977-81). With total public and private investments approaching $10 billion, the plan aims at creating 234,000 new non-farm jobs, achieving an annual GNP growth rate of 7.5 percent, and reaching agricultural self-sufficiency. The plan allocates two-thirds of total investment to the industrial sector, emphasizing such areas as oil and gas, phosphates, building materials, and electric power. Major projects in this area getting under way include a new nitrogenous phosphate fertilizer plant, four new cement plants, and development of the Miskar off-shore natural gas field.

There are several reasons for the United States' consistently low share of the Tunisian market, about 6 percent on the average. These include the use of French as the business language, Tunisia's closeness to European suppliers, and financing —foreign competitors often offer mixed concessional/commercial credit packages not available to U.S. suppliers.

Despite these obstacles, many American suppliers have successfully established themselves in the Tunisian market. They have captured most of the market for aircraft and major shares in other fields, including agricultural machinery, computers, and construction and other heavy equipment. Tunisia's interest in diversifying its sources of supply was reflected by a high-level Tunisian buyers' mission to the United States last May to purchase popularly-priced American consumer goods.

Upcoming trade promotion events in Tunisia sponsored by the Commerce Department include sales seminars in cargo handling in October and communication equipment in December.

LIBYA

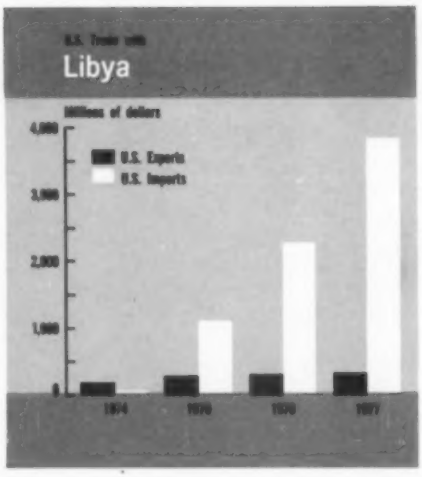
Development Pace Up, Opportunities Increase

Libya continues to be a lucrative market for foreign goods and services, with large capital resources and an impressive pace of development spending. Despite a number of marketing difficulties, such as frequently very strict application of the Arab boycott of Israel and difficulties sometimes encountered with Libyan officials, the outlook for U.S. sales this year is good.

Petroleum exports, the backbone of the Libyan economy, are expected to fall in 1978 for the first time in four years, Claude Clement of the Bureau of Export Development points out. Due to the sluggish state of the world market for petroleum, production for the first quarter of this year averaged 1.9 million barrels of crude a day or ten percent below production for the same period of 1977. Crude exports for the year as a whole are projected at 2.1 million b/d or nine percent less than originally planned.

Despite the reduction in oil exports, Libya continues to have a bright economic outlook. Planners are setting more ambitious goals for the country's future development during the current five-year plan (1976-80). Total development investments have been raised by 23 percent to $32 billion from the original $25.5 billion. This year's allocations alone total $6.2 billion, or 17.4 percent higher than for 1977. Libya's major development goals remain self-sufficiency in agriculture and light industrial production as well as improvement and expansion of social infrastructure.

The Libyan Government has not encouraged major increases in imports from the United States, and the U.S. share of the market has fallen considerably below its potential. Nevertheless, given the enormous imbalance in trade between the United States and Libya (U.S. exports to Libya in 1977 amounted to $314 million, imports to $3.8 billion) and the attractiveness of U.S. technology, an increase in U.S. sales is taking place. U.S. exports to Libya in 1978 are expected to reach $375 million, an increase of 20 percent over the all-time high reached last year. Marketing in Libya, however, presents a variety of pitfalls to the unwary. The potential U.S. supplier is urged to proceed with patience and caution. The following developments, briefly described, are of current interest:



- Metal processing. Planned facilities in this sector include a truck and bus assembly plant in Tajoura with a capacity of 4,000 vehicles per year, a tractor assembly plant in Suani (3,000 per year), and a factory for making metal parts in Tajoura. In addition, Libya's General Iron and Steel Corporation is planning a $1 billion steel complex in Misurata with power and desalination plants, housing, and port facilities. Whether the project is realized will depend largely on two surveys being made of an iron deposit near Wadi el-Shatt.
- Construction equipment and building materials. Cement production is to increase by one million tons in each of the next three years, as new plants are commissioned in Souk El Khemis, Benghazi, and Homs. Another important project to be completed by 1980 is a 200,000 ton-per-year wood tile factory in Tripoli. For the 1976-80 plan period, 150,000 dwelling units are to be built.
- Communications. In 1976, Libya had slightly less than 70,000 telephone lines. By 1980, the number of lines is to be increased to over 190,000 and by 1986, to over 420,000. Among other communication projects are the construction of TV relay stations around the country and the laying of underwater cables between Tripoli and Benghazi.

U.S. EXPORTS PREDICTED TO EXPAND IN FAR EAST-SOUTH ASIAN MARKETS

Most economies are strong, growing at good rates

With few exceptions, the economies of the Far East and South Asian nations are strong and growing at good rates. Japan's growth is slower than had been expected and some industries are operating below profitable levels, but solid growth opportunities exist in this, our largest overseas market. Elsewhere in the region, good conditions are the rule, with the exception of New Zealand and Pakistan, where business recovery is expected in the future.

In view of the favorable conditions, continued growth in sales of U.S. goods to the Far East and South Asia is in prospect for the remainder of 1978, reports Frederick J. Tower, a Commerce Department Regional Affairs Officer.

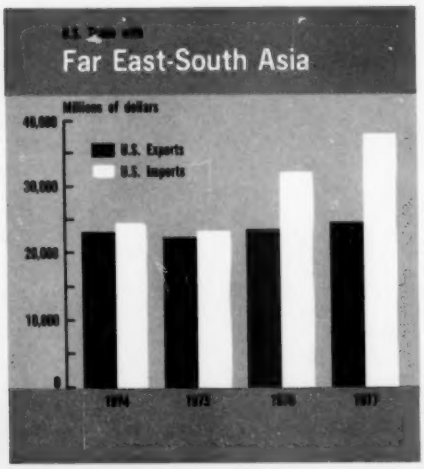
Exports from the United States to the area in 1977 were valued at $24.1 billion while imports were $37.9 billion. The imbalance is particularly evident in our trade with Taiwan and Japan, which have taken special measures to step up their purchases from the United States. In other markets of the region, signs point to a continued growth of sales at a moderate rate, but with considerable variation among the national markets.

It should be recognized by American suppliers that international competition for Far East and South Asian markets is keen and likely to intensify. Recent currency adjustments and the excellent reputation U.S. products enjoy in the region will assist alert exporters to capitalize on the many opportunities here.

Of special note in this region is the activity of the Joint U.S.-Japan Trade Facilitation Committee, which aims to lessen Japan's barriers to imports, and the "Buy More in America" campaign by which Taiwan seeks to reduce its large trade surplus with the United States.

Foreign exchange holdings of Asian nations increased significantly in 1977, with the upward trend continuing into this year. Earnings from exports were the principal source, with manufactures, raw materials including oil, and agricultural products continuing strong.

Financing of projects in the region by international lending institutions has reached record levels. The Asian Development Bank's operations reached $4.2 billion by year-end 1977, with almost $900 million of this approved in that year. The World Bank (including International Development Association) committed $1.7 billion in fiscal 1978, ended June 30. Opportunities for U.S. suppliers of a wide range of equipment exist as a result of the projects being financed.



JAPAN

U.S. Export Level Depends On Health Of Economy

The basic objective of Prime Minister Takeo Fukuda's government is to "expand economic activities, mainly through stimulating domestic demand, and thereby stabilize national life in general and employment in particular, while at the same time reducing the current account surplus to a marked degree." To this end, the government set the economic growth target for fiscal 1978 (which began April 1) at 7 percent, the highest among the major industrialized nations, reports Arthur Miyakawa of the Bureau of Export Development.

Based on the above and Japan's growing intention to increase imports, U.S. exports to Japan could approach the $12 billion level. Because the economy continues to struggle toward full recovery, however, it will require exceptional effort by U.S. exporters to exceed significantly last year's $10.5 billion sales to Japan. In essence, the key to larger exports could rest on the overall health of the Japanese economy.

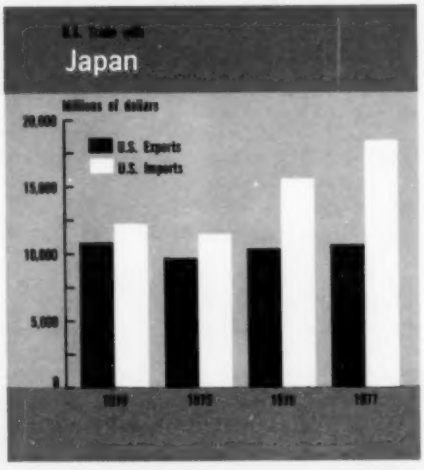
Difficulties continue to plague the economy. Private domestic demand such as personal consumption and corporate investment in plant and equipment remains sluggish. Furthermore, in many instances industrial plants are operating considerably below profitable levels, as indicated by the record number of bankruptcies. Unemployment remains at a stubborn 2 percent, a record high for Japan with its philosophy of "once hired, never fired." Moreover, many industries are troubled with structural problems, resulting from drastic price and market changes that have taken place in Japan and abroad.

Despite the inherent difficulties in solving these problems, during the first half of fiscal 1978 public investments are expected to play major stimulating roles in reviving the economy. Activities of the private sector, by contrast, are expected to be much less effective over this short period. The government is counting on implementation of the Composite Economic Measures announced last September, the second supplementary budget for fiscal 1977, the expanded budget for fiscal 1978, and the 3.5 percent Bank of Japan rate to be foundation stones leading to economic recovery.

Responding to increased consumer demand, the private sector is expected to lead the recovery in the second half of the fiscal year as inventories are again rebuilt and investments are initiated. Should these conditions occur, the fiscal 1978 growth target of 7 percent will come within reach. No marked improvement in employment can be expected, however, unless improvement occurs in such structurally depressed major industries as chemicals, petro-chemicals, petroleum, shipbuilding, aluminum and textiles. Unemployment, therefore, is not expected to fall significantly.

As for trade, the growth rate of Japanese exports is expected to fall substantially from the 20 percent of last year. Many predict the rate may fall to about half because of the slowdown in the world trade expansion rate and the impact of the steep yen appreciation. By contrast, the growth rate for imports is predicted to rise from 9 percent last year to 13 percent as greater efforts are made to boost imports.

By concentrating its efforts to attain economic recovery mainly on increased domestic demand, Japan expects to cut the nation's current account surplus drastically from the current $11 billion level



to around $6 billion. The first five months of 1978, however, already generated about a $6.5 billion surplus, significantly larger than the $2.2 billion for the same period of 1977.

The budget for fiscal 1978 constitutes the mainstay of the government's plan to expand economic activities and trim the balance of payments surplus. The General Account budget, notably enlarged over those of the previous years, totals $156 billion or 20.3 percent larger than the initial budget for fiscal 1977, while the Fiscal Loan and Investment Program of $68 billion, up 18.7 percent, centers on loans for private housing. The government is relying on public bond issues for $50 billion of its revenues: this amounts to 32 percent of total receipts for fiscal 1978 and thereby exceeds the traditional limit of 30 percent for public borrowing.

Over the short run, the continuing low level of consumption and the accompanying high rate of savings of nearly 20 percent, a stagnant performance in private investment, and the continued high unemployment, all lead to an absence of the essential business confidence required to spur full recovery.

It remains to be seen whether the first quarter's real growth of 2.4 percent, or an annual growth rate of about 10 percent, can be sustained. Last year, the economy was unable to keep up the first quarter rate and real growth for the year measured only 5.4 percent compared with the forecast of 6.8 percent. No one in Japan doubts the need for the government to adopt vigorous steps to reflate the economy, but serious questions exist concerning the administration's ability to bring it off.

Business confidence under these conditions, while somewhat more positive than last year at this time, remains an elusive goal. In view of the criticism leveled against Japan's current account surplus and import controls, especially by the United States and the European Community, many hard-headed Japanese businessmen remain unconvinced that good times are on the way. Many fear renewed stagnation and recall last year's downturn as the year progressed. These negative elements continue to influence the thinking and activities of the usually optimistic Japanese businessman.

Japan's January-May exports totaled $37.5 billion or 22 percent larger than for the same period last year. Japan's imports, by contrast, totaled $31.4 billion (c.i.f.), up 4 percent over the same period of 1977.

Several important actions have been taken by Japan and the United States to increase exports to Japan. The activities of the joint United States-Japan Trade Facilitation Committee (TFC), for example, are designed to reduce barriers and help increase Japan's imports of U.S. manufactures. Additionally, Japan's unilateral tariff reductions, and increased quotas on oranges, citrus juices and beef, also are aimed at increasing U.S. exports to Japan. These actions, however, do not necessarily assure an increased U.S. market share because of Japan's huge oil import bill, which now accounts for about one-third of its total imports. Based on the January-May statistics, Japan's imports of oil increased about 7.5 percent to $10.6 billion (c.i.f.) compared with a total import increase of 4 percent to $31.4 billion. By comparison, Japan's imports from the United States rose 3 percent to $5.5 billion. The U.S. share, therefore, fell to 17.4 percent, compared with 18.2 percent for the same five months of 1977.

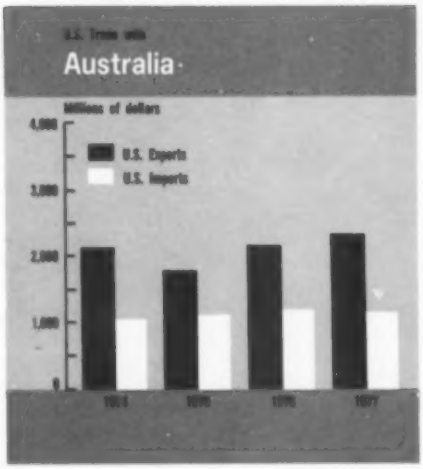
Because of the imbalance last year in the bilateral trade growth rate of 3.7 percent in U.S. exports to Japan and 20.5 percent in U.S. imports from Japan, the U.S. deficit with that country rose from $5.4 billion in 1976 to $8.1 billion last year, the largest in history. The deficit for the first five months of 1978 already totals $4.3 billion, compared with $2.7 billion in 1977.

To help boost U.S. exports, last March Japan sent a 93-person Import Promotion Mission here for two weeks to examine at first hand products available for export. The mission members are said to have bought or will sign contracts to purchase nearly $2 billion of goods this year.

Additionally, to create interest in exporting, the Japan External Trade Organization, jointly with Commerce, has conducted a series of Export to Japan seminars in more than 20 U.S. cities to acquaint prospective American exporters and manufacturers with what products will sell and how to sell in Japan. As a return gesture, in October the United States will send to Japan, also for a two-week period, Export Development Missions in the major industrial fields.

Currently, the "Tokyo Round" of the GATT negotiations is centered on lowering import duties and reducing various non-tariff trade restrictions to make imports easier and cheaper. Despite the uneven outlook for Japanese economic recovery, U.S. sales prospects remain attractive in such selected lines as computers, peripherals, process controls, food processing and packaging equipment, electronic industry production and test equipment, mechanical handling equipment, printing and graphic arts equipment, and building systems and materials. Demand for high quality, new consumer goods also will improve as the Japanese economy continues toward recovery. To meet this opportunity, an American consumer product must include some feature immediately identifying it as "Made in USA," a label which increasingly calls for a premium in the Japanese market.

The U.S. Trade Center, now in its 15th year, will feature this year building products and systems, lasers and electro-optics, and computer and related equipment.



AUSTRALIA

U.S. Export Upswing Seen As Economy Strengthens

U.S. exports to Australia should continue to grow, in real terms, throughout the remainder of 1978. Currently, Nancy H Keely of the Bureau of Export Development observes several major economic indicators that suggest an acceleration of that country's recovery in coming months.

The greater depreciation in the value of the U.S. dollar and the lower rate of U.S. inflation, as compared with Australia, have significantly increased U.S. exports to Australia. An improved Australian economy now augers well for future sales of U.S. goods. Retail sales have risen sharply. Increased consumer willingness to spend may reflect the reduced personal income tax. Heightened consumer spending is evident also for travel, services, and entertainment. The March survey of industrial trends conducted by a leading Australian bank revealed that a growing proportion of respondents predicted increased production and new orders for the June quarter and expressed greater confidence in an improved business climate over the next six months.

Investment is rising in both plant and equipment. Several initiatives with general application have been announced, including extension to June 30, 1986, of the 20 percent investment allowance tax incentive, and a procedure whereby the government may grant approved and very large developmental projects a guarantee of immunity from exchange controls for specified periods. Other initiatives are directly aimed at the North West Shelf Project and petroleum exploration. Current new mining ventures should lead to about a 60 percent increase in investment by the sector for 1978.

Although the deficit on Australia's overall balance of payments (net monetary movements) exceeded $1 billion for CY77,

the trade balance showed a surplus exceeding $1 billion. Gross Domestic Product at current prices exceeded $96 billion in CY77, a real growth of 2.6 percent as compared with last year.

The inflation rate, a crucial problem, has declined. The Consumer Price Index rose 9.3 percent for 1977 (14.4 percent for 1976). The outlook indicates about a 6 percent increase for FY1979. Wage rates are now restrained by indexation. Accordingly, industry is experiencing less anxiety regarding labor costs and related factors. Bringing wage rates more in line with productivity has also begun to restore lagging profits. With the improvements and prospects of rising turnover, the economy's annual growth rate may reach 3 percent during its recovery period.

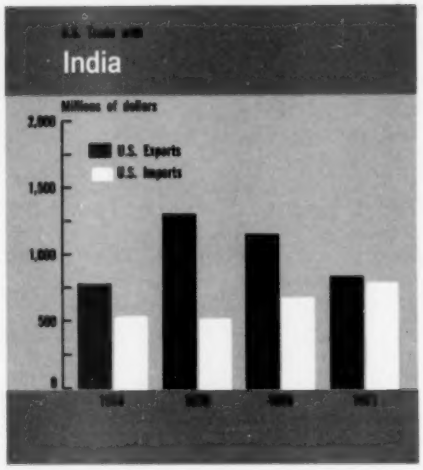
The Australian Government now encourages foreign investment. Revised foreign investment guidelines were announced on June 8. Principal elements include: provisions whereby less than 50 percent Australian-owned companies may embark on mining operations if they agree to the future "naturalization" process designed to bring them to 51 percent Australian ownership and control; an increase to A$5 million (A$1 = U.S$1.14 approximately) as the level of investment below which government approval is not needed (uranium mining and financial sector excluded); in cases where Foreign Takeovers Act is applicable, an increase to A$2 million as the level where government would not normally intervene (financial area excluded); individual real estate purchases of less than A$250,000 will not require government approval. *Investment in Australia* is obtainable from the Foreign Investment Review Board, c/o The Treasury, Canberra, A.C.T., Australia, or from Australian posts in the U.S.

Book value of U.S. private direct investment in Australia totaled $5.5 billion at year-end 1976, with Australia the sixth leading recipient of U.S. direct investment abroad. Over 800 U.S. companies have establishments in Australia; about another 1,500 firms have licensing or other agreements with Australian companies. U.S. investment is especially prominent in engineering, chemicals, food processing, and petroleum development and refining.

The United States, Australia's leading supplier, has about a 21 percent share of the market. Imports from America exceeded $2.5 billion for CY77 (up 21.8 percent from last year). Product areas offering the best sales prospects for U.S. exports include: computers and peripherals; business machines; pumps, valves, and compressors; mining and heavy construction; automotive maintenance and repair; bio-medical; communications; metalworking; power generating and distributing; printing and graphic arts; security; and food processing and packaging. Prospects should even accelerate as Australian businessmen increasingly utilize the investment allowance tax incentive to renew outdated plant and equipment and offset rising labor costs.

U.S. consumer goods benefit from their high reputation and competitive advantage due to high internal Australian prices. Increased Australian spending on leisure-time activities should raise sales of recreational, camping and sporting equipment, kitchenware, hand tools, hardware, arts and craft materials, fashions, toys, games, and furniture.

U.S. trade promotion events in Australia for the rest of this year and into 1979 include: U.S. pavilion, Australian International Engineering Exhibition, Sydney, September; hotel, motel and restaurant trade mission, November; communications equipment, U.S. International Marketing Center (USIMC), Sydney, November; mining and exploration equipment, Sydney, February 1979; computers, Melbourne, April; automotive repair and maintenance equipment, USIMC, Sydney, June; U.S. pavilion, Australian International Engineering Exhibition, Melbourne, July; printing and graphic arts equipment, USIMC, Sydney, August/September.



INDIA

Sales Prospects Brighten In View Of Policy Changes

Prospects for sales of U.S. equipment to India's public sector are considerably brighter for the next year as a result of several changes contained in the Indian Fiscal Year (IFY) 1978-79 Import-Export Policy, according to George E. Paine of the Bureau of Export Development. These changes mark a major step in liberalizing India's foreign trade. Now 253 items of capital goods, some raw materials and components (non-iron and steel), a wide spectrum of life-saving drugs and equipment, certain finished drug preparations, and some teaching aids can be imported without special license.

Also, under the IFY 1978-79 Import-Export Policy, the import of capital goods on global tenders is now permitted for 14 industries. Indian manufacturers bidding on these tenders will benefit only from the fact that duties are levied on these items, varying from 25-40 percent. The 14 industries are fertilizers; newsprint and paper; basic drugs; basic technical materials for pesticides and weedicides; power generation, transmission and distribution; mineral exploration, mining and beneficiation; petroleum exploration and production; petro-chemicals up to the stage of polymers; manufacture of professional grade components; waste disposal recycling and effluent treatment projects and ecological engineering; materials handling projects at ports; sugar; cement and cement products (including asbestos); and 100 percent export-oriented industries.

India is now able to liberalize its import regime because of a considerable build-up of foreign exchange reserves in recent years. Reserves stood at $5.8 billion in March 1978 and are expected to exceed $7.5 billion by March 1979. A net aid flow of $1 billion (debt servicing cost India $900 million last year) and remittances from Indians living abroad totaling approximately $1 billion gave India a balance of payments surplus, which overshadowed its $700 million trade deficit.

For 1978, the greatest opportunities for sales of U.S. equipment will be to the public sector procurement agencies which account for approximately 75 percent of imports. Private industries are experiencing demand recession in many areas. A steady growth of exports of U.S. capital equipment and spare parts is expected this year as a result of demand generated by federal and state governments on major projects, such as power generation and transmission, mining, oil and gas exploration, and large construction equipment for irrigation projects.

Prospects for sales of American-made capital items are best in the 14 industries mentioned previously. In addition, there is interest in a wide range of U.S. goods such as vegetable oilseeds and oils, non-ferrous metals, special steels, and equipment to manufacture special steel.

There is also scope for the import of computer peripherals, process control instruments, telecommunications equipment, trawlers, printing and graphic arts equipment, health care equipment, dairy, food, and fish processing equipment, heavy construction and earthmoving equipment, naptha cracker units, industrial explosives, and special refractories for steel mills.

The outlook for investment is not as bright. The Government of India is pursuing a long range goal of reducing foreign influence in industry and commerce, preferring outright purchase of technology over foreign equity investment.

Enforcement of the 40 percent foreign equity limit, which generally applies except in certain cases of high technology and export-oriented areas, is expected to be more strict in the future. In 100 percent export cases, the Indian Government may consider even a fully-owned foreign company. Each case of foreign investment or technology agreement is decided singly.

However, there are some positive aspects in collaborations, especially technical collaborations. These are a large, growing, and protected domestic market; a relatively well-developed infrastructure; an established domestic capital market; a competent cadre of management personnel; skilled and semi-skilled workers; relatively low wage rates; English as the commercial language; and freedom of remittance of profits, royalties, dividends and capital, subject to regulations common to all. Also, a collaboration in India is sometimes an advantage to the foreign firm in bidding on local projects for the supply of equipment, materials, and services from sources outside of India. Tie-ins with Indian companies can also be of benefit in competing for business in third countries.

India's GNP is estimated to have crossed the $100 billion-mark during IFY 1977-78 (April 1-March 31). Prospects for future growth in the Indian economy are heavily dependent on favorable monsoons. To reduce this dependence, high priority has been placed by the Janata Government on development of the agricultural sector, particularly irrigation and flood control. Some 43 percent of development funds have been allocated to agricultural development by the 1978-79 draft Five-Year Plan.

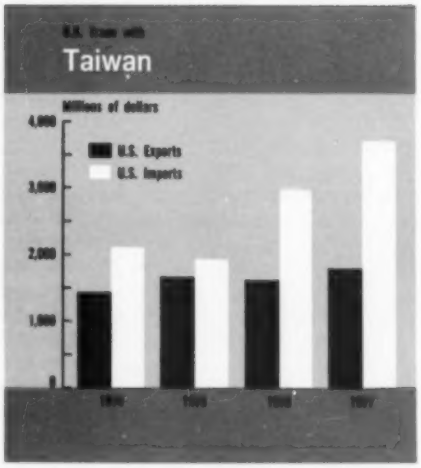
To assist U.S. firms in selling to India during the next year, the U.S. Department of Commerce will conduct a telecommunications trade mission in November 1978, a health care catalog show in January 1979, and a process control catalog show in April 1979. A trade mission is also being considered by the National Machine Tool Builders Association for early 1979.

TAIWAN

Upward Motion Continues; U.S. Sales Are Encouraged

The first half of 1978 has seen Taiwan maintaining its strong and steady upward motion, with all indicators stable and the foreign trade balance advantageous to the Republic of China on most fronts, according to Andre Williams of the Bureau of Export Development.

In U.S.-Taiwan trade, the deficit for our side was nearly $2 billion in 1977 out of total two-way trade of $5.5 billion. This situation has caused concern to both partners, and the Chinese, in an effort to remedy it, have initiated a campaign of "Buy More in America," which should result in



increased sales of U.S. products, notably capital goods, to the island. Several purchasing missions are aiding this drive.

At the same time, the U.S. Department of Commerce is planning a series of trade missions and seminars, and events at the Taipei Trade Center, to back up the efforts of the Chinese Government to put two-way trade on a more equitable footing. These will focus on product lines determined by the U.S. Embassy to offer the best sales prospects, as follows: Electronic banking equipment and software, metalworking and machine tools, electronic industry production and testing equipment, computers and computer peripherals, food packaging equipment, process control instrumentation, advanced and automated textile machinery and equipment, aviation/aerospace equipment, telecommunications equipment, hotel and restaurant equipment, laboratory and scientific instruments, and medical equipment.

Authorities in Taiwan remain true to their dedication to the creation of a capital-intensive, high-technology industrial society; 1977 saw heavy industry grow by 15 percent, while light industry advanced only 5 percent.

China should be self-sufficient in petrochemical feedstocks this year. Integrated circuits are now being produced in Taiwan, and the first phase of the China Steel Company's integrated steel mill was completed in December. All three of these projects are expected to stimulate the development of downstream industries, and, consequently, to offer targets of opportunity for U.S. suppliers of support equipment.

GNP increased 8.1 percent to $10.7 billion in 1977 (in 1971 prices), while per capita income reached $1,168, an 11.8 percent increase. On the other hand, inflation became a problem as it approached 7 percent, due in part to the massive accrual of foreign exchange ($5 billion).

The new Taiwan dollar was revalued from NT$38 to NT$36 to U.S.$1 this month.

These factors should prove attractive and encouraging to would-be exporters to Taiwan. It seems reasonable to expect that the 25 percent rate of growth in U.S. sales to the island in the second quarter of 1978 will be maintained throughout the year.

In the past, Japan has been the principal supplier to Taiwan. It is unlikely that this will change, but several steps have been taken to blunt the edge enjoyed by Japanese exporters over their American counterparts. Certain goods must henceforth originate in the United States or the EEC (or the Chinese Government will not issue an import license) and certain categories of goods on open tenders will be awarded on the basis of f.o.b. rather than c.i.f. value; the latter method is detrimental to U.S. goods, which must travel farther.

Foreign investment is welcome and has grown at a healthy rate. This has stimulated imports of machinery and capital equipment, which rose 34 percent in January-March, compared to 14 percent during the first three months of 1977. The U.S. share of foreign investment in the Republic of China is currently 29.9 percent, for a total of $523.6 million; it is concentrated in the electronics and chemical industries. The Chinese Government is friendly toward foreign investment but likes to see it channeled in capital-intensive industries with export potential. Technical cooperation is also in great demand.

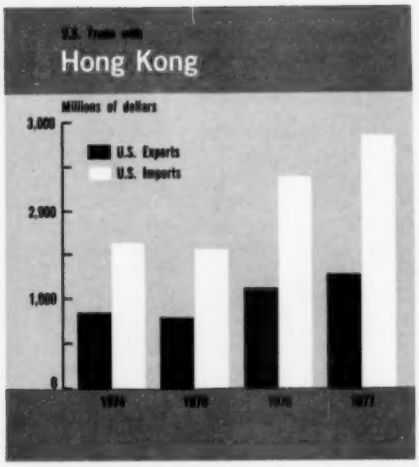
HONG KONG

Continued Robust Growth Makes Market Attractive

Unexpectedly rapid growth in the export sector in the first half of 1978 is leading Hong Kong's economy to another year of robust growth. Original predictions of 9 percent real growth in Gross Domestic Product may well be surpassed, offering increased opportunities for U.S. suppliers and investors, according to Carol A. Murray of the Bureau of Export Development.

Despite predictions of much slower growth in 1977 due to the effect of U.S. and European protectionism against textiles and apparel, real GDP increased by 11.7 percent, 5 percent more than originally expected. Unusual growth in domestic activity, particularly in building and construction, accounted for this good record.

In a budget statement issued earlier this year, the Hong Kong Government predicted double-digit economic growth and single-digit inflation in 1978 for the third successive year. Consumer prices, which rose by 5.8 percent in 1977, are expected to increase by about 5 percent in 1978; GDP is estimated to grow by 9-10 percent; exports are projected to rise by 5 percent, although export performance in the first five months of 1978 has already surpassed this prediction with growth of 10 percent; imports



are estimated to rise by 9 percent, with the most rapid growth in consumer and capital goods; and government outlays of $2.2 billion are planned, resulting in a near balanced budget after a year of record surplus.

With exports accounting for over 80 percent of GDP every year, developments in Hong Kong's major markets, the United States, EEC and Japan, have a substantial effect on economic growth. Textiles and garments are still the leading export items, but electrical and electronics products, watches and clocks, artificial flowers and toys are also important. Total merchandise exports in 1977 were $9.6 billion, compared with $8.9 billion in 1976. The United States purchased 32.2 percent, or $2.9 billion.

Hong Kong's imports were $10.5 billion in 1977, 12.5 percent more than in 1976. Japan was the main supplier with 23.7 percent of the market, followed by the United States with a 12.5 percent share. U.S. exports grew by 14.8 percent to reach $1.3 billion and consisted primarily of textile fibers and waste, electric and non-electric machinery, electronic components, fruits and vegetables and tobacco products. Despite growing sales and market share, the United States has had a substantial deficit in its balance of trade with Hong Kong for the last several years—$1.6 billion in 1977. Growing personal income (per capita GDP exceeds $2,190 and is growing by 7 percent every year), continued rapid growth of government expenditure (14 percent) and private construction activity (20 percent), plus the added advantage of a revaluing Japanese yen which makes U.S. goods and services more price competitive, make the Hong Kong market particularly attractive.

Products judged to have good potential in Hong Kong are consumer goods of all kinds, raw materials for Hong Kong's export industries, electronic components, building supplies and equipment, communications equipment and systems, graphic arts equipment, business equipment, laboratory, scientific and engineering instruments and health care equipment.

INDONESIA

Banks Show Confidence In This Healthy Economy

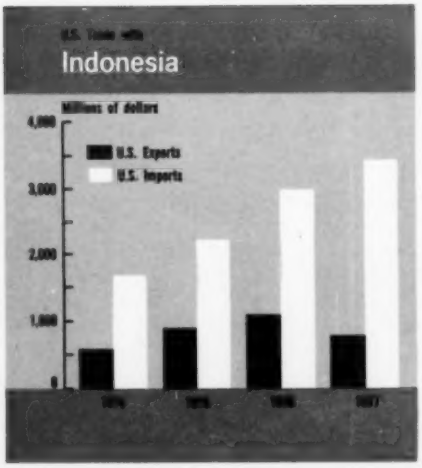
Indonesia's economic performance continues to be good, with inflation reduced to 10 percent by the end of FY 1977/78 (Indonesian fiscal year ending March 31) and a growth rate of 7 to 8 percent likely in the current year. Substantially improved export performance in 1977/78, resulting from higher world prices and larger export volume for some commodities, and the further development of import substituting industries (e.g., cement and fertilizer), resulted in a $650 million balance of payments surplus, compared to $1 billion the preceding year. Net official international reserves were $2.2 billion on March 31.

Confidence of the international banking community, observes M. Virginia Webbert, Country Specialist for Indonesia, was recently evidenced by extension of new loans on more favorable terms which enable Indonesia to reduce its debt service ratio. With continued caution in new borrowing, it should remain below 20 percent in 1978-80.

The Inter-Governmental Group on Indonesia (IGGI)—13 donor countries and international lending agencies—in May endorsed Indonesia's aid request of $2.5 billion for 1978/79, of which 70 percent will be on concessional and semi-concessional terms, including some aid from non-IGGI members (see *Commerce America*, July 17, page 15). The United States may furnish nearly $190 million.

Continuing problems are inflationary pressures, large food import requirements, the urgent need to develop non-oil export earnings, and the low level of private investment. Oil output is not expected to increase in the near-term and domestic requirements are rising. While the value of approved domestic investment increased in 1977, foreign investment in non-oil fields continues to lag despite government efforts to improve the investment climate.

The government has recently relaxed its tight credit policy adopted to aid recovery from the Pertamina crisis. Through reduction in lending rates, establishment of usance credits for certain exports and imports, and lowering reserve requirements on demand deposits, it hopes to stimulate the economy, encourage investment, and boost exports. Despite these measures, balance of payments estimates envisage a slackening of export growth to 7 percent and import growth to 6 percent in 1978/79, with a modest rise in international reserves. Since imports are estimated at the substantial level of $9.5 billion in 1978/79, however, there will be many trade opportunities of interest to U.S. exporters.



Commerce-sponsored trade promotion events include: a mining and exploration equipment seminar mission in December 1978 and an electric power equipment seminar mission in March 1979. Other promising product lines include materials handling, construction and refrigeration equipment.

U.S. exports to Indonesia in 1977 totaling $763 million were 26 percent below the 1976 level while imports were 16 percent higher, increasing the trade deficit to $2.7 billion. Machinery and equipment comprised 49 percent and agricultural products 32 percent of total U.S. exports; petroleum comprised nearly 80 percent of U.S. imports. The U.S. market share was 13 percent. In the first four months of 1978, U.S. exports to Indonesia were 9 percent higher than in the same period of 1977, possibly reflecting Indonesia's easier credit policy and increased expenditures by U.S. oil companies as contract and U.S. tax problems were resolved. U.S. imports were 10 percent lower, narrowing the trade deficit.

KOREA

Remarkable Economic Growth Continues

During the first quarter of 1978 Korea continued its spectacular progress towards industrialized nation status, according to Peter Wilson of the Bureau of Export Development. Real growth in GNP during the first three months of the year was 15.8 percent, notwithstanding a drop in agricultural output, and a 13 to 15 percent growth is forecast for the full year. Manufacturing showed a strong 19.4 percent growth rate, but the real impetus to the booming first quarter came from the construction and infrastructure sectors, up 26.4 percent over the first quarter of last year.

Construction, both residential and non-residential, together with fixed capital in-

vestment in machinery and equipment, are leading the economy this year. Total gross fixed investment was up a near record 46.9 percent in the first quarter, with private construction showing a 47.6 percent increase. Capital investment is also at high levels. Non-residential construction showed a 45 percent gain over the first quarter of last year, with investment in machinery and equipment up 50.5 percent. Government construction showed a satisfactory 27.7 percent gain. While the foreign sector continues strong, it has definitely taken a back seat to the domestic sector. The latest trade figures show exports for Jan.-May at $4.7 billion, which is 37 percent of the 1978 export goal. Meanwhile, imports reached $5.1 billion, a significant 45.5 percent increase over the same period in 1977, auguring well for the full year.

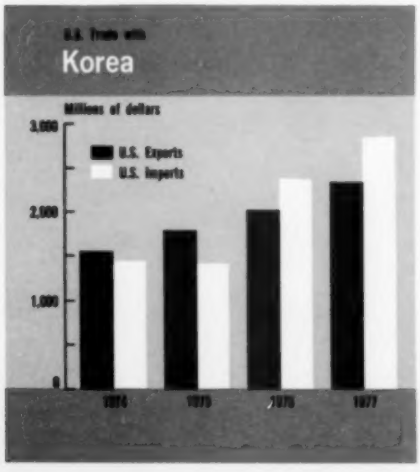
At the end of May U.S. exports to Korea totalled $1,209 million while U.S. imports from Korea stood at $1,394 million, giving the United States a $185 million deficit in its two-way trade. As a result the United States retained its position as Korea's principal export market and second most important supplier after Japan.

This performance compares favorably with 1977 exports to Korea of $2,371 million and imports of $2,883 million, resulting in a deficit of $512 million. The U.S. share of the market was 22.6 percent.

Both consumer and wholesale prices registered above average increases during May, continuing the inflationary pressures which have been causing problems for the economy. Consumer prices rose 7.3 percent over December, while the wholesale price index was 5.9 percent up over December.

Although foreign exchange reserves fell $36 million in May, they remain high at $4,102 million. As a result of this and a drop in the government's monetary base, the money supply fell by 1.6 percent and now stands at 31.5 percent over May 1977 levels, but with only 0.2 percent growth since December.

Best prospects for U.S. exports to Korea



are metalworking and finishing machinery, power generation equipment, construction and mining equipment, process control instrumentation, materials handling equipment, laboratory instrumentation, electronics production and test equipment, textile and apparel machinery, and medical equipment. In this connection, the U.S. Department of Commerce will sponsor in Seoul a machine tools and metalworking equipment exhibition in March 1979.

NEW ZEALAND

Static Market Expected During Next Few Months

Despite an improved balance of trade, New Zealand is still in a recession, according to Joseph C. Wilson of the Bureau of Export Development. The government recently announced an expansionary budget to bolster business confidence and improve production. As a result, some economists predict that an upswing in business activity could commence by early October. Budget measures include tax cuts, farm subsidies and price supports, loans to the fishing industry, and incentives to produce LPG and natural gas.

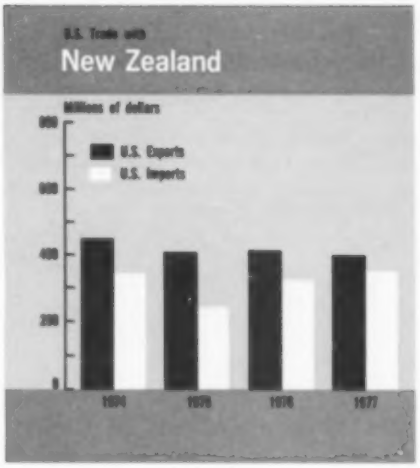
Imports for the year ending June 1978 will cost $3.28 billion and exports will bring in $3.4 billion, but "invisibles" such as freight and insurance costs and the servicing of overseas debts will result in a net adverse balance of payments of $990 million. Official reserves fell to $594 million by the beginning of 1978. Imports are forecast to rise to $3.35 billion in the year ending June 1979. The U.S. share of the 1978 market is about 14 percent and could increase 2-3 percent over the coming year.

GNP should reach $14.3 billion in FY78 (FY ends March 31) and is forecast to increase to $15.9 in FY79. Inflatic currently at about 14 percent, should drop to 12 percent during FY79.

Working hard to trade its way out of the recession, New Zealand has designated 1978 as an "Export Year" and is actively exploring new markets for its traditional exports of meat, wool, dairy products and forest products, and is also aggressively seeking to identify new products having export potential. The emphasis on improving production in the manufacturing sector, from which new products are expected to come, should afford particularly attractive sales prospects for U.S. suppliers of production equipment.

Export prospects continue exceptionally good for forest products machinery, equipment for pulp and paper plants, computers, office equipment and systems, health care, engineering and scientific equipment, and equipment for the natural gas, coal, transportation, power generation and distribution industries.

Major projects continuing to afford op-



portunities for the export of services and equipment include a large natural gas field due to come into production during the coming year, a petro-chemical plant and the possible expansion of a petroleum refinery. A program of government loans to the fishing industry could mean sales of fishing vessels and processing plants.

The following items, traditionally big import categories, offer sales prospects to U.S. suppliers: communications equipment, artificial fibers and fabrics, synthetic rubber and rubber products, chemicals, fertilizers, insecticides, fungicides, medical and pharmaceutical products, tobacco, fruits and edible oils.

U.S. Commercial Officers in Wellington and Auckland closely coordinate export promotion with the U.S. International Marketing Center in Sydney. They are exploring prospects and plans for promoting communications equipment, and equipment for the fishing, forest products, plastics, natural gas, and food industries. Also to be considered are laboratory and process control instrumentation, auto maintenance equipment and safety and security equipment.

PAKISTAN

Economy Currently Stable But Future Is Uncertain

For the past year, following the military coup which ousted former Prime Minister Bhutto, Pakistan has been experiencing relative stability. However, the country's future is somewhat cloudy and will remain so while the appeals process continues following the Bhutto conviction and the Military Law Administration (MLA) ponders how and when to reinstate civilian rule.

George E. Paine of Commerce's Bureau of Export Development reports that the commercial climate in Pakistan has improved considerably over the past year due to the MLA's creation of a stabler environment and its favorable attitude toward

private enterprise. The MLA, consistent with its traditional Moslem beliefs, has encouraged new investment in the private sector. Two significant moves have been the denationalizing of the agricultural-based industries (wheat mills, cotton gins and rice husking units) which had been nationalized by the previous government, and the opening to private investment of 11 categories of industry which had been previously reserved to the public sector.

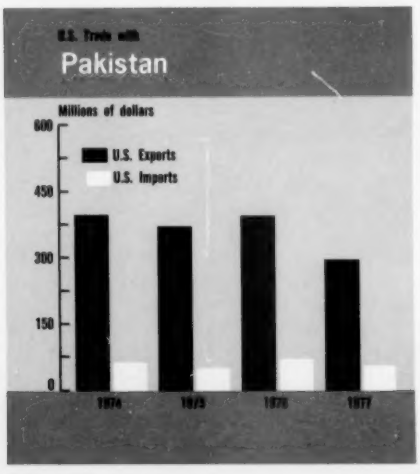
The newly opened categories of industry should provide opportunities for American investment. The government proposal to set up Export Processing Zones near Lahore and Karachi contains incentives which have already attracted 50 local and foreign applicants. Given Pakistan's location near the rapidly expanding markets in the Middle East, its cheap labor and engineering expertise, Pakistan expects to attract increasing foreign investment.

Pakistan has, with the one exception of insurance companies, never nationalized foreign investment. The government prefers joint ventures as vehicles for foreign investment and, because of the de facto immunity of foreign investment to nationalization, Pakistani investors seek out foreign partners.

The draft five-year plan which the government is expected to announce shortly will reflect the MLA's emphasis on rural development and basic human needs as well as call on the private sector to play a more active role in industrial growth. An attempt will be made to stimulate agricultural growth by better credit, improvements in technical assistance and more use of fertilizers.

Pakistan's trade deficit may reach $1.5 billion this year as the country must continue to import large quantities of wheat, edible oil and fertilizer. Remittances of nearly $1 billion from overseas Pakistanis and anticipated aid disbursements of another $1 billion will help to nearly cover the balance of payments gap.

The government has been and remains a major purchaser of plant and equipment.



For the public sector, the sale of American goods and services looks brightest for oil and gas exploration and development equipment, oil refineries and petrochemical plants and equipment, and power generation and distribution equipment. There are also opportunities for equipment and systems to extract and process non-ferrous metals, port and railroad equipment, communication systems, and chemical plants and equipment. American engineering and consultancy are well regarded, resulting in a good market for these services.

The U.S. Department of Commerce will conduct a telecommunications trade mission to Pakistan and India during November. It is hoped this trade mission will assist U.S. firms to recapture some of Pakistan's import market for communication equipment which has been eroded by foreign competition in recent years. The planned launching by India of a geostationary communications satellite, INSAT-I, which could have the technical capacity to service Pakistan as well, bodes well for this market sector on the subcontinent.

PHILIPPINES

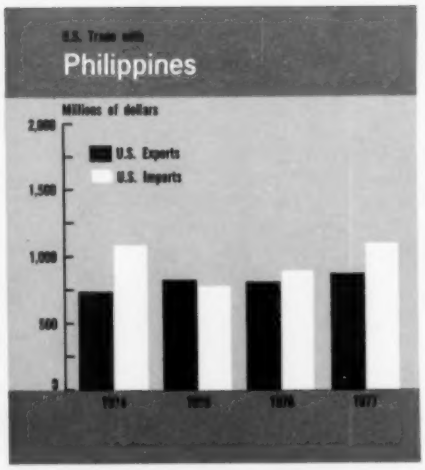
Recent Moderate Growth Is Expected To Continue

Moderate growth has characterized the Philippine economy in the past year, and it is expected by Andre Williams of the Bureau of Export Development to continue for the remainder of 1978. GNP increased by 6.1 percent, compared with 6.7 percent in 1976. The country recorded its first balance of payments surplus in three years, a modest $16 million, while trade with the United States registered a $233 million plus for the Philippines.

Because of heavy dependence on agricultural exports such as sugar and coconut products, the economy is vulnerable when fluctuations in prices of these commodities occur. The outlook is mixed, since the sugar industry has been distressed and is undergoing reorganization.

A Five-Year Economic Plan (1978-82), stressing regional development, is being implemented. Manufacturing, and mining and quarrying, will continue to lead growth in the industrial sector. The principal products of these areas are wood and cork products, beverages, chemicals, basic metal products, nickel and copper extraction and concentrates. On the other hand, agricultural growth declined overall, and construction slackened markedly after a period of boom.

Gross domestic capital formation fell off sharply as new investment slowed. Employment growth was limited to 4 percent, while real wages remained about constant. None of these factors is expected to change significantly, leading to a guarded estimate for general market improvement.



The peso is expected to remain stable vis-a-vis the U.S. dollar, at 7.4 to 1.

Government activity is the dominant feature of the national economy, and much of the expansion is financed by domestic borrowing. Among the government's major concerns have been introduction of orderly marketing procedures in the sugar industry, and assistance to the hotel industry, which suffered from overconstruction and attendant low occupancy rates, necessitating relief on debt obligations. The authorities hope to accelerate the growth of GNP to 8 percent, to seek more self-sufficiency in food and energy, to reduce the large inequalities in personal income, and to stimlate the development of rural areas, especially by discouraging additional concentration of activity in the Manila area.

Exporters should exercise great care in following scrupulously all stipulations contained in the Letter of Credit, which is the only approved method of selling to the Philippines, since all transactions require previous approval by the Central Bank. It is extremely difficult to solve problems after shipment arising from a deviation from such terms, but properly handled transactions result in prompt and full payment.

Business confidence has been undermined by the sluggish overall performance of the economy, the relative absence of investment activity, and some overcapacity.

The U.S. share of the Philippine import market (which totals almost $4 billion), dropped to 20.4 percent in 1977, the lowest in ten years. This was caused in part by stiff competition from Japan, which commanded 25 percent of the market, and may be offset in the second half of 1978 by the substantial appreciation of the yen versus the dollar.

Nevertheless, while the Philippines remains closed to nearly all consumer and luxury goods, it is a promising market for the following products: pollution control equipment and systems, computers and peripherals, telecommunications equipment and systems, and food processing and packaging equipment.

SINGAPORE

Goods, Services From U.S. Top $1 Billion In Value

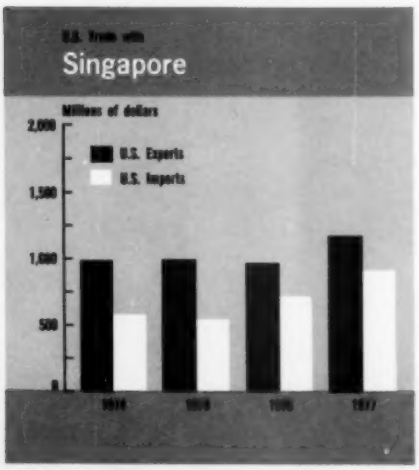
The United States was Singapore's second largest trading partner in 1977, capturing 14 percent of the Republic's total trade. The 1978 outlook is excellent and prospects remain encouraging for the sale of U.S. equipment and services, according to J. Lee Barnes of the Bureau of Export Development.

The United States supplied about 13 percent of the country's imports in 1977. Major factors accounting for the U.S. market position include Singapore's continued economic growth and strong balance of payments position, the price competitiveness enjoyed by U.S. suppliers, and the country's demand for capital goods.

GNP in current prices increased 9.7 percent in 1977 over 1976, with the outlook for 1978 equally impressive should the world's economy continue to improve. Singapore's balance of payments showed a $296 million surplus in 1977 and total foreign exchange reserves reached $3.7 billion.

The Republic's growth continues at a steady pace, reflecting renewed foreign demand. The health of the manufacturing sector is improving, with the petroleum industry, Singapore's most important manufacturing group with over 40 percent of the Republic's output in 1977, posting a respectable increase over 1976.

Singapore's Economic Development Board emphasizes capital intensive industrialization. As a result, the market for U.S. capital goods is expanding rapidly. Best prospects for U.S. goods exist in energy systems, metalworking and shipbuilding and ship repairing equipment, pumps, valves and compressors, communications and pollution control equipment and laboratory, scientific, and engineering instruments. Other products with considerable market potential include quality control and materials test equipment, commercial and industrial security and safety equipment, printing and food processing and packaging equipment. In addition, the Republic, with the second highest per capita income in Asia, has become an increasingly attractive market for U.S. consumer items. It should be remembered that the market is a competitive one and very conscious of price, financing, delivery time and after-sale service.



When viewing Singapore as a market, the country's entrepot function must also be taken into consideration. As a stable home for some 2.3 million people, the Republic serves as a regional shopping center providing transportation, communication, financial and medical services for South Asia. It is also a center for the offshore oil industry and is used by many firms as a base for the supply of parts, equipment and services in the region.

To assist U.S. exporters in their marketing efforts, the Department of Commerce operates an International Marketing Center in Singapore. Upcoming events include exhibitions on energy systems, electronic industry production and test equipment, computers and peripherals, industrial process controls and the ship care industry. Between these scheduled events, the facility is available to U.S. firms for privately-sponsored promotion activities.

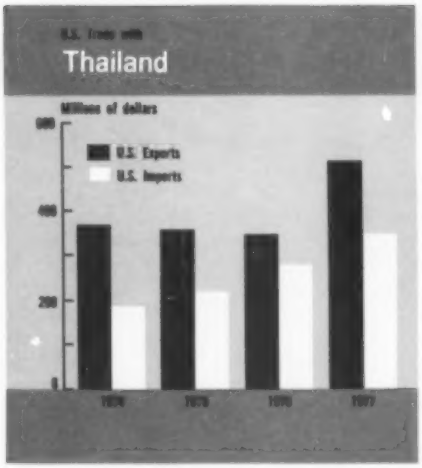
THAILAND

Economy Remains Buoyant Despite Emerging Problems

Continued buoyancy in the economy, a healthy economic growth rate, and business confidence in the new government's more stringent economic policy are favorable factors for continued expansion of U.S.-Thai trade. While government concern over the $1 billion trade deficit in 1977 and balance of payments problems has resulted in steps to reduce excessive imports, these moves are not expected by M. Virginia Webbert of the Bureau of Export Development to jeopardize economic expansion or significantly reduce trade opportunities.

Boosted by unusually large earnings from rice and minerals, Thai exports increased by 17 percent to $3.6 billion in 1977, but were outpaced by an unprecedented 26 percent rise in imports to $4.6 billion. Net international reserves dropped by $265 million in 1977 but at year-end were still equal to about four months imports; as of April they totaled $1.3 billion.

Economic growth declined slightly in 1977 to 6.5 percent, but this was due to a severe drought which caused a 4 percent drop in the value added by agricultural output. Non-agricultural output rose by 11 percent, due in part to recovery of private investment, mainly domestic, which rose by 19 percent in real terms. Expansionary fiscal and monetary policies contributed to accelerated inflation in 1977 and early 1978



when it reached nearly 10 percent.

To help the balance of payments, the government increased certain petroleum and other taxes in early 1978, tightened credit, and placed import prohibitions and higher customs duties on imports of less essential consumer goods. It aims to reduce the current account deficit, limit price increases to 7 percent, and achieve an economic growth rate of at least 7 percent. Thailand's international credit rating is high. It will have no difficulty borrowing to finance the deficit.

U.S. exports to Thailand in 1977 totaling $510 million were 47 percent higher than in 1976; imports of $350 million were 27 percent higher, increasing the traditional trade surplus to $159 million. The U.S. share of Thailand's imports fell slightly in 1977 to 12.5 percent. U.S. exports to Thailand continued to rise in 1978 and in the first four months were 19 percent higher compared to 1977; U.S. imports from Thailand rose by 12 percent.

While U.S. exporters face increasing competition in the Thai market, there continue to be excellent trade opportunities. Commerce-sponsored trade promotion events to assist U.S. exporters include: a materials handling equipment trade mission in September; medical, surgical and hospital equipment catalog show in November; mining and exploration equipment seminar mission in December; agribusiness exhibition in February 1979; and electric power seminar mission in March 1979.

Other products with especially good sales prospects include printing and graphic arts and automotive repair equipment. Implementation of major projects valued at some $10.5 billion (70 projects detailed in Thailand's Fourth Five-Year Plan ending September 1981 and additional private sector projects) create many opportunities to provide goods and services. Also, a recent agreement between the Thai Government and the Union Oil Co. on gas pricing and selection of a U.S. firm for a gas pipeline project could greatly improve U.S. business prospects.

KEY VARIABLE IN AFRICAN OUTLOOK IS DIRECTION OF COMMODITY PRICES

Foreign Assistance Programs Assume Greater Importance

While Sub-Saharan Africa offers a receptive market to U.S. exporters, many of these nations are dependent on a few commodities for foreign exchange earnings. There are a number of trends that will tend to reduce African nations' export earnings, but the increased interest in African development, and the external financial assistance such interest entails, will help stabilize overall foreign exchange earnings, according to Philip L. Christenson of the Bureau of Export Development.

Coffee prices, on which Zaire, Kenya, Ivory Coast, Cameroon, and Tanzania depend significantly, are in the middle of a downward trend from the extremely high prices of Spring 1977. While prices continue to decline during the remainder of this year, it is reasonable to assume that prices will stabilize at a level higher than pre-1977, with long-term benefits to those economies. The Ivory Coast, with a more diversified economy, will be less affected than the other coffee producers, while a 30 percent crop failure in Kenya will combine with lower prices to cause serious foreign earnings losses.

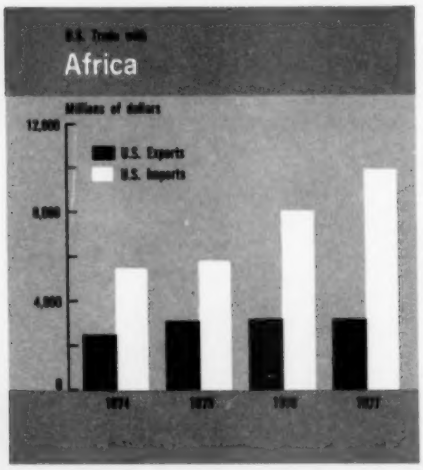
Cocoa prices, too, are declining from 1977 high marks. The increased level of Ivorian production will help mitigate the impact of these declines, while Ghana's continuing decline in production will result in sharply reduced earnings. Zambia and Zaire, the major copper producers, have not yet recovered from the collapse in copper earnings, and major international assistance has been necessary. Zambia has been doubly hurt by the loss of transportation links through Angola and Rhodesia, placing a severe strain on the Tazara Railway to Dar es Salaam. U.S. firms offering assistance with these transportation difficulties could find a warm reception, as well as foreign concessional financing.

With the increased level of political interest in Africa by the Western Nations, multilateral development assistance programs have assumed greater importance. An important development has been the increased role played in Africa by the oil-producing Arabian penisula states, and increased levels of untied aid funding available from these sources. While Sudan and Somalia seem prime prospective recipients, other Islamic nations will also benefit.

Major project opportunities financed by external development programs continue to offer good prospects for U.S. exporters. Tanzania continues to receive a high level of overseas assistance, and will be able to move forward on many of its development programs. The present Five-Year Plan calls for construction or expansion of facilities for sugar processing, pulp and paper, textiles, phosphates, and food processing, and greater attention will be given to the development of domestic energy resources from domestic coal and gas fields.

In Kenya, the impact of lower coffee prices and the loss of production will not be felt until after the end of 1978, and a real growth rate of 6 percent this year can be confidently predicted. While Kenyan authorities will need to meet the challenge of rising expenditures in the near future, some additional investments will still be required to replace infrastructure formerly provided by the joint East African Community corporations.

Infrastructure projects continue to provide the major trade opportunities for U.S. firms. Throughout the continent, embassies report best prospects are for sales of agricultural machinery, construction, communications and transport equipment, energy systems, and health care. To take advantage of these opportunities, the Commerce Department has scheduled trade missions for the remainder of this year in Sahelian agriculture, avionics and aviation, and public health. Missions scheduled for early 1979 include construction, engineering and architectural services; energy systems; commercial fishing; and railway equipment.



CAMEROON

Steady Economic Progress Enhances Import Market

U.S. exports to Cameroon should increase about 20 percent in 1978 to $65 million. Aircraft purchases could push the total considerably higher, according to Philip Michelini of the Bureau of Export Development. As in past years, major sales items are likely to be tractors, tobacco, paper products, construction and mining equipment, and food processing machinery.

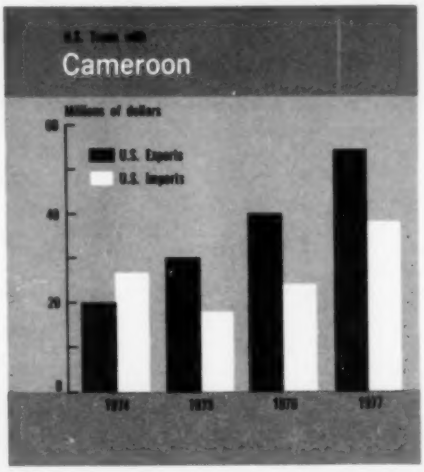
In the past 12 months the Cameroon economy has grown at an annual rate of 5 percent in real terms. Economic progress for the entire nation is possible during the 1978-79 fiscal year (July-June), provided inflation can be prevented from exceeding recent levels averaging 20 percent annually. The 1978-79 national budget announced in June called for a 20.6 percent increase in expenditures to 165.2 billion CFA francs ($732 million). The development investment budget is pegged to rise from 38.5 billion to 51.3 billion francs. Renewed inflationary pressures are bound to result.

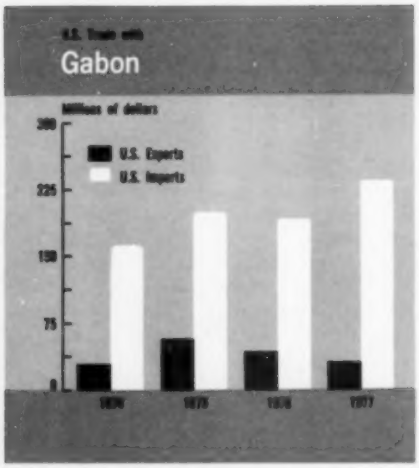
Some of the needed new revenues should come from a repeat in 1978 of the record export performance registered in 1977. While the outlook for coffee and cotton production and sales is down, the recent recovery of the cocoa crop should continue and some initial returns should be gleaned from rubber and oil palm diversification programs. Benefits from Cameroon's developing petroleum sector will remain modest until the 1980's.

The shortfall in income is to be made up by an increase in loans from abroad. Debt-servicing payments during the current budget year are calculated at 9.6 billion CFA francs ($43 million). Cameroon's external debt situation remains considerably less serious than most African countries; the International Monetary Fund this spring gave a favorable opinion as to the government's development programming and current fiscal probity. Nevertheless, there exists the framework for a drift to the quagmire of excessive dependence upon foreign loans.

For now Cameroon remains one of the better African markets for U.S. firms.

The Department of Commerce has scheduled for next June an energy systems technical trade mission.





GABON

External Debt Problem Is Curbing Ambitions

American suppliers and investors are taking a hard second look at Gabon as the country's external debt problem becomes known. Speculation concerning a national debt exceeding $2 billion has been circulating about the international business community in recent months and has had an adverse effect upon U.S. exports of goods and services to Gabon. Apart from possible sales of American-manufactured aircraft, U.S. exports are not expected to increase from 1977 levels, according to Philip Michelini of the Bureau of Export Development.

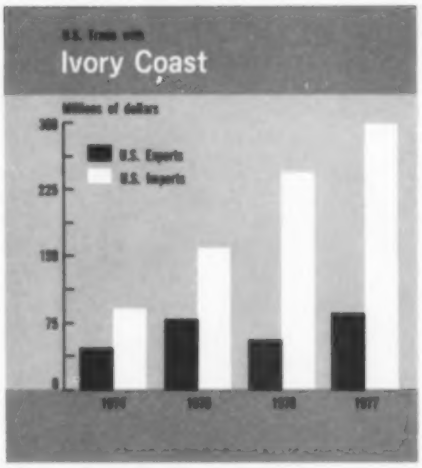
Because of its debt problem Gabon will have to proceed in the months ahead more vigorously with the national austerity program President El Hadj Omar Bongo announced a year ago. National debt-servicing in 1978 alone will consume 155 billion CFA francs (about $688 million), compared to 67 billion francs in the 1977 budget. It is likely major development projects such as the Transgabon Railroad, Sogacel cellulose scheme, and mineral port at Santa Clara will proceed less rapidly than the 1976-80 Development Plan indicated. Other announced projects may join those previously mothballed.

A recent International Monetary Fund-sponsored stabilization program, if effectively implemented, will take considerable time to have a positive result. An import bill which totaled $740 million in 1977 is likely to come under renewed scrutiny. As a consequence, for the remainder of 1978 and 1979 business opportunities will probably be reduced from recent levels.

Within the Gabonese economy oil production and exports have stagnated since 1975; it is projected that oil revenues will fall off by the end of the year in the wake of Nigeria's decision to accept lower prices for its crude. The manganese and timber sectors, while remaining good earners of foreign exchange, are not expanding. Their growth depends upon renewed world market demand and completion of the Transgabon Railway. The uranium and natural gas sectors are developing at a fast pace, but alone are not sufficient to take up the slack. The manufacturing and commercial sectors are not yet significant. The limited size of the Gabonese market, one million people, has hindered their growth.

Meanwhile, numerous sales opportunities do exist. Gabon is continuing to encourage foreign private investment and diversification of its sources of trade. Several American companies have made impressive sales in recent years. The Germans, Italians, Japanese, and South Koreans have been particularly active this year. The French retain their traditional preeminent commercial position. Renewed Gallic interest in Sub-Saharan Africa has taken place since the French national elections in March. American firms are likely to find the competition from France for markets like Gabon as tenacious as ever.

The Department of Commerce will sponsor an energy systems technical trade mission in Libreville next June.



IVORY COAST

U.S. Trade Imbalance Will Continue To Grow

Led by increased demand for American transport vehicles, construction and mining machinery, kraft paper, refrigeration and cooling machinery, chemicals and foodstuffs, U.S. exports to Ivory Coast should exceed $100 million in 1977, according to Philip Michelini of the Bureau of Export Development. Meanwhile U.S. imports of Ivorian coffee, cocoa and other tropical products are expected to grow by nearly $200 million and approach $500 million. As is true for most African markets, a serious bilateral trade imbalance presently exists for the United States.

While the Ivorian economy is believed to be essentially sound, the future volume of American sales of goods and services also will depend upon the success the Ivorian Government achieves in maintaining its widespread reputation for prudent planning, wise management and fiscal responsibility. The recent economic history of many African states casts a shadow over public attitudes even for comparative national success stories such as that of Ivory Coast.

A certain uneasiness resides within the international community with regard to administrative and development expenditures far exceeding revenues and a growing recourse to domestic and foreign lending. A major increase in Ivory Coast's external debt in 1977 has had an unsettling effect on mercantile opinion. The Ivorians themselves appear to feel an annual inflation rate of 30 percent can be allowed to continue. It remains to be known what will be the degree of effectiveness of certain corrective policies which have been announced.

American business in recent years also has been troubled at indications on the part of the Ivorian Government of favoritism toward French sources of supply. To date the U.S. business community has hoped impartial economic criteria alone are to be used when international contract awards are made.

President Felix Houphouet-Boigny has said publicly that Ivory Coast does not wish to be a private French "game preserve." A clarification of the criteria and procedures to be adopted when evaluating international bids would do much to allay present concern.

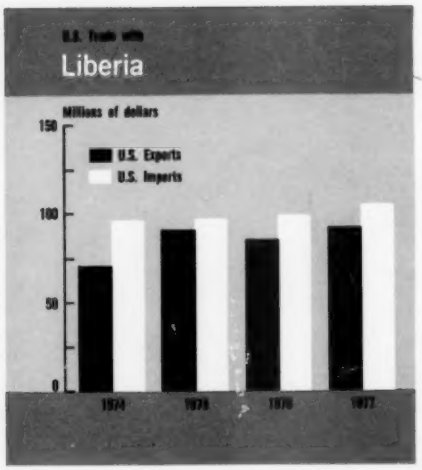
The Department of Commerce has scheduled, in Abidjan next June, an energy systems technical trade mission.

LIBERIA

U.S. Remains Top Supplier; Slower Growth Predicted

With anticipated exports of $158 million, the United States should remain Liberia's leading supplier in 1978, according to Mary L. Manley of the Bureau of Export Development. In 1977 the United States had 26 percent of the Liberian market, while the Federal Republic of Germany, the United Kingdom and Japan accounted for 20, 9 and 6 percent, respectively.

In 1977, Liberian GDP (current prices) at $697.1 million was up 8.1 percent from 1976. Real GDP growth in 1978, which is officially projected at 2-3 percent, will depend upon performance in the non-iron sector. Iron ore production is projected to decline, as two processing plants have been shut down and major investments in the iron ore sector have been postponed. The construction sector is expected



to expand, reflecting the continuing growth of investment expenditures.

The consumer price index for Monrovia, which measures mostly wage earners and clerical employees, indicated a 5.8 percent rise in 1977, as compared to an average 13 percent annual increase in 1974-76.

As a result of the harmonization of customs duties with Sierra Leone, new customs regulations went into effect in November. While some tariff rates were increased, the price effect of the changes is estimated at less than 1.5 percent.

Under the recently amended Investment Incentive Code, enterprises undertaking new projects may be granted a five-year, 90 percent duty exemption on reinvested profits, a 50 percent exemption on distributable profits, and a protective tariff on competing imported products. The five-year incentives may be renewed for a further two years in certain circumstances.

The FY 1979 budget amounts to $172.9 million, of which 15.7 percent is for agriculture and forestry, 32.6 percent for transportation and communications, 15.1 percent for public utilities and 21.3 percent for social and community services. Expenditures on social and community services will increase considerably compared with FY78. In FY80 planned public development expenditure is expected to rise to $233.5 million. Expenditure is expected to increase 29 percent to $3.5 million for agriculture and forestry, and by 25 percent to $32.6 million for thermal power plant expansion. An $8 million IDA credit to the Liberian Water and Sewer Corporation will expand the water supply system. Thermal power facilities are to be expanded to meet demand until a new hydroelectric facility becomes operational in about 1985. Other projects include a four-year program for 800 miles of feeder roads to support the opening up of agricultural areas and industrial plantation programs.

The new Industrial Free Zone offers attractive incentives for setting up processing facilities for goods to be marketed throughout West Africa. Manufacturing establishments in the new zone may lease the buildings provided or build new ones.

U.S. products with good export potential include motor vehicles, pesticides, structural and reinforcement iron and steel, glassware, small household appliances, packaged cleaning compounds, gift items, and canned and frozen foods.

A U.S. Government-organized housewares exhibition, using videotaped product displays and demonstrations, will be held in Monrovia in February.

NIGERIA

Strong Commercial Links Help Maintain U.S. Sales

Nigeria's imports from the United States should exceed $900 million in 1978, even with that country's recently announced austerity measures and import prohibitions, according to Reginald F. Biddle of the Bureau of Export Development. U.S. exports to Nigeria averaged over $90 million per month from January through May of 1978. However, the effects of the new import ban order of April 1 may be felt in the latter part of the year, causing U.S. exports to drop somewhat. The United States, with a 10 percent share of the market, ranks third behind the United Kingdom and West Germany.

During March, Nigeria's petroleum production slipped to 1.5 million barrels per day, the lowest monthly rate in over six years. Petroleum exports for the first quarter of 1978 were down over 30 percent from the first quarter of 1977. But in April, production increased to nearly 1.7 million barrels per day. Petroleum accounts for 85 percent of government revenues and about 40 percent of GDP.

Nigeria's GDP was $27 billion in 1977 and is expected to reach only $28 billion in 1978, primarily because of a deliberate government reduction in expenditures. The Nigerian Government in its federal budget for the new fiscal year which began April 1 introduced a series of austerity measures designed to slow down the economy and reorder economic priorities away from reliance on petroleum revenues. Imports will be reduced and fresh accent will be placed on production in agriculture and manufacturing.

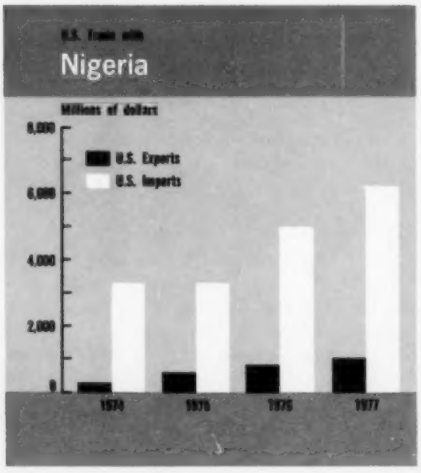
Although exports of $13.8 billion and imports of $11.6 billion gave Nigeria a $2.2 billion trade surplus in 1977, an overwhelming services account deficit was primarily responsible for the balance of payments deficit of $960 million. Nigeria's foreign exchange reserves dropped to $4.8 billion from $5.5 billion in 1977.

The economic downturn and new trade restrictions could cause a falling import demand for U.S. products. American consumer goods, vehicles and construction-related exports should be hardest hit. The growth of agricultural commodity sales to Nigeria will also slow down.

The new budget's curb on imports is part of an effort to reduce the drain on foreign exchange reserves, promote domestic manufacture and protect infant industries. The list of goods prohibited entry into Nigeria has been expanded and other goods have been placed under import license. Among items added to the list of banned products are: fresh milk, flavored and colored beet sugar, macaroni and spaghetti, beer and stout, malt extract drinks, footwear, carpets, furniture, poultry, matches, household candles, eggs, ready-made garments, and jewelry. Products placed under import license include: bed, table, toilet and kitchen linen; curtains, pillow cases, and other furnishing articles; all non-alcoholic beverages, radios, record players, tape recorders, video cassette recorders, tape decks, stereo sets, television sets, air-conditioners, domestic refrigerators, built-up commercial vehicles (trucks and lorries), and computers and similar data processing machines.

Import duties on a number of goods have been substantially increased, a port surcharge of 5 percent will be payable on all imports to aid development of Nigeria's seaports and airports, and importers of non-essential commodities are required to make a deposit equal to the invoice value with the central bank prior to importation. In May the Nigerian Government made several important modifications in its import ban and duty rates. Faced with food shortages and leaping inflation of up to 40 percent, the government rescinded some of the April budget curbs.

Significant incentives for agricultural investment are offered under the new budget. Price controls have been removed from all locally produced agricultural products. Additional incentives to the agricultural sector include: liberal production and marketing credit; capital expenditure investment allowances; indefinite loss



carry forward provisions under the tax law; and exemption from taxes for interest received on loans of seven years or longer. The most important incentive for potential foreign investors is the moving of all agribusiness activity from 40 to 60 percent foreign ownership maximums.

Overall relations between Nigeria and the United States are the most harmonious in many years. The visit of President Carter to Nigeria in April following Nigerian Head of State Obasanjo's trip to the United States in October 1977 is symbolic of recent improvement in U.S.-Nigerian relations. High-level economic discussions have also been held between the United States and Nigeria for the purpose of analyzing and reducing impediments to further trade and investment.

In the remaining months of 1978, the Commerce Department will sponsor in Nigeria two seminar missions, one on public health, and the other on avionics and general aviation equipment.

Best prospects for U.S. exports to Nigeria, in addition to those above, include agricultural machinery, equipment and services, electric power equipment, motor vehicle maintenance equipment, communications equipment and systems, graphic arts and printing equipment, material handling machinery and equipment, educational and training equipment, oil field and process plant equipment, metalworking equipment, and food processing and packaging equipment.

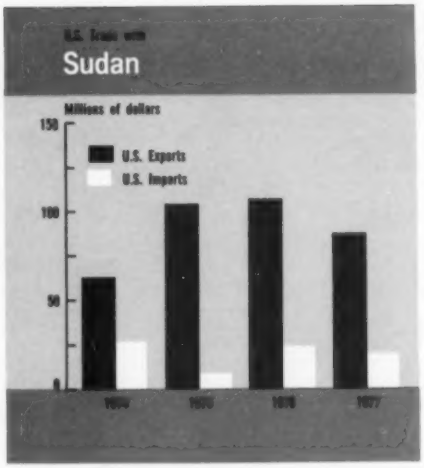
SUDAN

Economic Reform Program Limits Market Expansion

U.S. exports to the Sudan are expected to increase to $94 million in 1978, 7 percent above the 1977 level. The slower trend of U.S. export growth apparent during the first half of 1978 is likely to continue during the second half of the year and in 1979 as the Sudanese Government holds the line on development expenditures.

The country's medium-term economic prospects are bright, as seen by Mary L. Manley of the Bureau of Export Development. The government's economic reform program aims at remedying balance of payments difficulties and setting the country's finances on a sound basis. The program provides for an adjustment in the exchange rate of the Sudanese pound, a strengthening of public finances, and a restructuring of incentives in the agricultural sector. In support of this program, the IMF has agreed to the Sudan's purchase of SDR 21 million and to an SDR 30 million loan from its Trust Fund.

In recent years the Sudan's adverse balance of payments position has been due to external factors such as the sharp increase in import prices as well as the result of expansionary domestic policies.



Payments problems were exacerbated by the pronounced decline in net external assistance. This decrease occurred at the same time the Sudanese authorities were attempting to speed up development momentum. The results in the external sector were a sharp decline in net assistance, a buildup of short-term and other liabilities, and interruptions in the flow of imports.

Estimated aggregate spending levels for FY 79 provide for a modest expansion of the economy and a reduction in government borrowing. In the $2 billion budget, general (non-developmental) expenditures are estimated at $1.6 billion, up 18.4 percent from FY78. With development expenditures reduced to $568 million, the total budget is roughly comparable to that of FY78. Revenues are expected to increase 12.9 percent over FY78 to $1.7 billion.

Increased general expenditures have stemmed from a number of factors: expansion in general services; effects of inflation on government purchases; transfer of some projects from the development budget to the general fund; and an increase in payments on foreign obligations.

Export opportunities are expanding for heavy construction equipment, and also are promising for road tractors, trucks, prefabricated housing and chemicals. Machinery and equipment for irrigation, telecommunications, sugar, textile and peanut processing and road, port and airport-construction projects continue to be in strong demand.

Engineering, consultancy and project management opportunities also are likely to develop. Communication, navigational and maintenance equipment is being purchased for 17 airports. During 1978-83 Sudan Railways plans to spend $223 million on track improvements, locomotives, rolling stock, workshops and other machinery.

The Sudan Government welcomes foreign investment, particularly in agricultural and industrial enterprises. Legislation makes it clear that the government seeks to carry out flexible investment policies. To spur investment, the Sudan-U.S. Business Council has proposed new investment incentives and the enactment of a new Sudanese investmert law which would synchronize regulations in force.

U.S. Department of Commerce-organized trade missions on public health (September), Sahelian agriculture (November), and avionics and aviation (December) will visit the Sudan this year.

SOUTH AFRICA

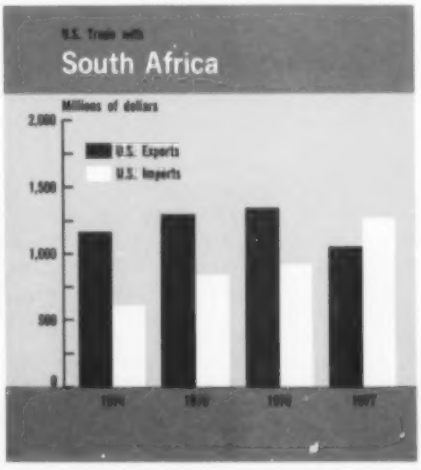
Economy Shows Signs Of Resuming Growth

After three years of decline, the South African economy shows signs that the recession may have bottomed out and that a modest level of growth may be resumed. A return to the long-term growth rates of 5-7 percent maintained during most of this century cannot be expected, advises Philip L. Christenson of the Bureau of Export Development, until business and consumer confidence is restored in the government's capacity and resolve to accommodate rising non-white aspirations for a more just social, economic, and political system.

So far, the government's refusal to abandon apartheid in the face of massive foreign and domestic opposition has been a prime factor in the prolongation of South Africa's economic difficulties.

During 1977 real gross domestic investment fell by 12.5 percent, reflecting the lack of business confidence in the government's ability to deal with the political crisis and the increased rate of savings caused by political uncertainties shared by the public. For the first time in nine years, domestic savings exceeded domestic investment.

Despite the lack of consumer and business confidence, external factors such as the increased demand for South African non-gold mineral and agricultural exports



and the significant increases in the price received for gold (up from $116 an ounce in August 1976 to $186 an ounce July 10) have combined to maintain a minimal level of growth, although this has not been evenly distributed throughout the economy. Important doubts exist as to the ability of the South African economy to maintain even a modest growth rate in light of weakening demand for non-gold exports and the vicissitudes of the gold market.

The latest Reserve Bank data indicate that real output in the industry and commerce sectors rose during the first quarter by 1978 by 2.5 and 1 percent respectively, a sharp contrast to the declines of 5.5 and 7.5 percent registered during 1977. While it is not possible to predict a trend from a single quarter's data, many observers hope that this improvement in non-agricultural, non-mineral sectors signals that South Africa's long-overdue cyclical recovery is under way. If the decline has in fact been halted, however, there is little reason to believe recovery will be rapid, as serious constraints exist on the ability of the government to adopt a more expansionary economic policy.

The prime constraint on government policy has been the need to protect South Africa's foreign exchange reserves by maintaining a healthy balance of trade surplus. A series of restrictive measures on imports and the demand for South Africa's mineral and vegetable products turned a trade deficit of $1,864 million in 1976 into a surplus of $864 million in 1977. For the first four months of 1978, imports are up 13 percent over the same period last year while exports are up 36 percent, although monthly data shows a narrowing in the trade surplus. A continuing deficit in the capital and services accounts, caused in part by political uncertainties, has consumed the entire trade surplus and resulted in a decline in South Africa's foreign reserves.

Reflecting the various economic factors at play in South Africa, U.S. exports have fallen to an annual level of about $840 million, down considerably from 1976's $1.3 billion. Part of the decline reflects normal cyclical decline in demand for machinery and equipment, part the completion of South African Airways' fleet modernization program. There are signs, however, that misinterpretation of U.S. trade policy has created a reluctance among South African buyers to purchase from the United States, and that other foreign suppliers have profited from this reluctance.

U.S. exporters seeking to maintain their market position should obtain Export Administration Bulletin No. 175, dated Feb. 16, 1978, for information concerning restrictions on exports to South Africa, and should contact the Exporters Service Staff, Office of Export Administration, tel. 202-377-4811.

U.S. TRADE WITH SELECTED COUNTRIES

In Millions of Dollars	U.S. exports				U.S. imports			
	1974	1975	1976	1977	1974	1975	1976	1977
Western Hemisphere								
Barbados	38	36	49	59	32	34	30	32
Belize	19	26	23	31	30	34	13	20
Bermuda	62	63	79	87	2	3	4	5
Chile	452	533	508	520	311	138	222	273
Guadeloupe and Martinique	33	26	32	34	1	1	5	4
Guyana	66	89	95	62	83	87	62	54
Leeward and Windward Islands	34	41	38	65	27	15	19	9
Panama	364	317	358	346	106	195	142	159
Paraguay	30	33	38	51	21	19	22	24
Surinam	73	79	93	119	74	106	87	119
Uruguay	42	51	54	74	16	25	63	87
Western Europe								
Cyprus	20	16	21	23	1	1	2	5
Iceland	38	32	35	36	75	85	124	159
Ireland	193	190	280	378	246	176	201	236
Malta	13	22	28	29	4	2	3	4
Near East								
Bahrain	80	90	280	203	61	101	30	75
Jordan	105	195	234	302	(1)	1	1	3
Lebanon	287	369	49	124	30	33	5	42
Oman	36	75	57	57	21	53	223	436
Qatar	34	50	79	113	80	56	119	302
Syria	40	128	273	134	2	7	10	16
Yemen (Sana)	10	8	25	46	1	(1)	(1)	1
Yemen (Aden)	12	3	4	31	5	1	1	3
Far East-South Asia								
Bangladesh	238	382	116	156	68	54	64	57
Brunei	22	78	32	39	9	78	118	114
Macao	(1)	1	(1)	(1)	13	16	25	43
Malaysia	377	393	536	561	770	766	941	1,318
New Caledonia	33	39	40	48	41	56	37	72
Pacific Islands, Trust Terr.	27	30	25	30	4	2	5	6
Papua New Guinea	15	20	14	19	41	36	76	81
Sri Lanka	23	38	37	53	41	40	43	67
Sub-Sahara Africa								
Angola	62	53	35	38	378	426	264	312
Botswana	2	2	3	2	3	20	54	50
Burundi	1	1	3	3	7	21	22	26
Congo (Brazzaville)	8	12	14	12	2	19	55	32
Ethiopia	33	70	78	58	64	49	94	94
Ghana	77	100	133	146	126	150	155	214
Guinea	14	24	23	16	15	27	44	45
Kenya	49	48	43	77	40	36	60	92
Malagasy Republic	7	7	6	7	60	46	60	76
Mauritius	16	10	8	9	32	17	18	21
Mozambique	32	18	13	13	45	36	41	66
Rhodesia	1	1	1	1	20	60	46	49
Rwanda	2	3	2	4	20	24	53	34
Senegal	34	33	41	36	3	2	4	2
Sierra Leone	18	9	12	14	65	41	50	63
Tanzania	51	66	36	39	26	29	47	80
Togo	6	18	20	23	3	1	1	(1)
Uganda	8	15	6	14	67	61	107	246
Zaire	145	188	99	114	68	67	193	172
Zambia	68	86	48	49	6	(1)	161	102

Note: The selected countries are those for which U.S. exports or imports were valued at $20 million or more in 1977 and are not otherwise covered in the country articles in this issue. Exports and imports are valued f.a.s. (free alongside ship). Beginning 1977 imports are based on the date of importation rather than the date of entry.

1 Less than $500,000.

Source: Bureau of the Census.

☆ U.S. Government Printing Office: 1978, 249-851/28

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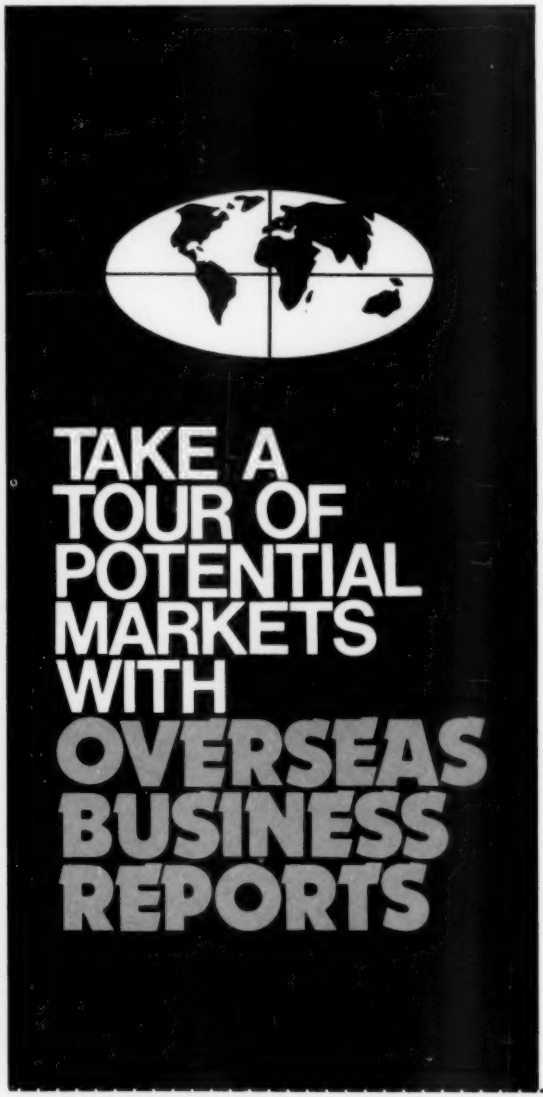

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